Supreme Court, U.S.
FILED
06-3 JUL 3 - 2006
OFFICE OF THE CLERK

No. _____

In The
Supreme Court of the United States

PAYLESS SHOESOURCE, INC.,

Petitioner,

v.

ADIDAS AMERICA, INC. and ADIDAS-SALOMON AG,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether a district court, under Fed. R. Civ. P. 54(b), may properly enter a partial final judgment (subject to immediate appeal) resolving some – but not all – of a plaintiff's legal theories, where the purportedly separate and certifiable "claims for relief" arise from substantially the same facts as the unresolved claims, are subject to the same defense as the unresolved claims, seek substantially overlapping relief as the unresolved claims, and arise from facts that also form the basis of unresolved counterclaims.

2. Whether a Rule 54(b) judgment may be upheld, despite the substantial factual and legal overlap between adjudicated and unadjudicated causes of action, defenses, and requested remedies, on the grounds that (a) an immediate appeal might eliminate the possibility of two trials in the event of an appellate reversal, (b) the underlying litigation is not "routine" (*Wood v. GCC Bend, LLC*, 422 F.3d 873, 882 (9th Cir. 2005)), or (c) the appeal "revolves around a single issue" purportedly distinct from the remaining claims.

RULE 29.6 STATEMENT

Petitioner Payless ShoeSource, Inc. is a Missouri corporation. Its immediate parent company is Payless ShoeSource Finance, Inc., a Nevada corporation. Its ultimate parent is Payless ShoeSource, Inc., a publicly-traded Delaware corporation. Except as indicated above, no publicly held corporation owns 10% or more of the stock of Petitioner or of its parent companies.

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PETITION FOR A WRIT OF CERTIORARI

OPINIONS BELOW

The divided opinion of the court of appeals (App., *infra*, 1a-5a) is unreported. The district court's order entering a partial final judgment under Fed. R. Civ. P. 54(b) (App., *infra*, 6a-9a), and its prior order declining to enter such a judgment (*id.* at 10a-14a), are unreported. The district court's opinion granting partial summary judgment (*id.* at 15a-17a), and the Magistrate Judge's findings and recommendation (*id.* at 18a-32a), are also unreported.

JURISDICTION

The Ninth Circuit entered judgment on January 5, 2006, and denied rehearing on February 28. App., *infra*, 1a, 33a. Justice Kennedy extended the time for filing a petition for a writ of certiorari until June 29, 2006. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

STATUTES AND RULE INVOLVED

Federal Rule of Civil Procedure 54(b) and pertinent provisions of 28 U.S.C. §§ 1291 and 1292(b) are set forth at App., *infra*, 34a-35a.

STATEMENT

This case presents the Court with a valuable opportunity to resolve multiple conflicts in the circuits and provide much-needed guidance concerning the meaning of Federal Rule of Civil Procedure 54(b). That rule is vitally important to the proper functioning of the federal judicial system, the structure and duration of federal litigation involving multiple claims or parties, and the workload of the federal courts of appeals. In the decision below, the Ninth Circuit upheld a Rule 54(b) certification even though the purportedly separate claims adjudicated by the trial court not only arise from substantially the same facts

as claims and counterclaims still pending, but also are subject to the same defense, and seek substantially the same relief, as plaintiffs' unresolved claims. In reaching that anomalous result, the Ninth Circuit relied on considerations that other circuits have rejected, and applied the novel analytical framework it had created in *Wood v. GCC Bend, LLC*, 422 F.3d 873 (2005) – a framework no other circuit follows. Further review is warranted.

1. *The Scope and Operation of Rule 54(b).* The Federal Rules of Civil Procedure broadly authorize the joinder of claims and parties within a single "civil action." *See* Fed. R. Civ. P. 2, 13, 14, 18-20. "When more than one claim for relief is presented in an action, whether as a claim, counterclaim, cross-claim or third-party claim, or when multiple parties are involved," Rule 54(b) authorizes a district court to "direct the entry of final judgment as to one or more but fewer than all of the claims or parties." To enter a partial final judgment under Rule 54(b), the court must make "an express determination that there is no just reason for delay and . . . an express direction for the entry of judgment." A Rule 54(b) judgment is then appealable like other "final decisions" under 28 U.S.C. § 1291.

Rule 54(b) is intended to effectuate the "ancient policy" disfavoring "piecemeal disposal of litigation" by vesting in district courts "a discretionary power to afford a remedy *in the infrequent harsh case*." Fed. R. Civ. P. 54(b) adv. comm. note (1946) (emphasis added). It was adopted "to avoid the possible injustice of a delay in judgment of *a distinctly separate claim* to await adjudication of the entire case." *Id.* (emphasis added). Although Rule 54(b) speaks of a "*claim for relief*," it does not define the term or provide any guidance on how to determine whether resolved claims are so "distinctly separate" that they warrant entry of a partial final judgment.

2. *The Parties, Claims, and Defenses in This Litigation.* This lawsuit was initiated in 2001 by respondents adidas America, Inc., a German corporation that manufactures sport shoes and other products, and adidas-Salomon

AG, its wholly-owned subsidiary and U.S. distributor. Petitioner Payless ShoeSource, Inc. ("Payless"), a shoe retailer, is the sole defendant.

In its amended complaint, Adidas[1] asserted numerous claims under federal and state law arising out of Payless's sale of athletic shoes that, in Adidas's view, infringed or diluted Adidas's trademark and trade dress rights and violated a 1994 agreement between Adidas and Payless resolving an earlier, similar lawsuit. In a section setting forth "facts common to all claims for relief," Adidas's complaint described the 1994 settlement agreement, Adidas's federally registered trademarks relating to the use of "three parallel bands on its athletic shoes" ("the Three-Stripe Mark"), and the supposedly distinctive "trade dress" of Adidas's "Superstar" model shoes (which combined the Three-Stripe Mark with other design elements, such as toe and heel features). App., *infra*, 39a-45a. Adidas alleged that Payless was distributing and selling shoes that "bear a confusingly similar imitation" of the Three-Stripe Mark and related Superstar trade dress. *Id.* at 46a-48a.

On the basis of these common allegations, Adidas asserted ten counts, falling into three categories: (a) federal- and state-law claims for infringement, dilution, and unfair competition relating to the Three-Stripe Mark (Counts 1, 2, 4, 6, 8 and 9); (b) federal- and state-law claims for infringement, dilution, and unfair competition relating to its claimed trade dress (Counts 3, 5 and 7); and (c) a claim for breach of the 1994 agreement (Count 10). App., *infra*, 48a-60a.[2] Adidas's federal trademark and trade dress claims sought essentially identical damages

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[1] Consistent with respondents' complaint (App., *infra*, 39a), we refer below to the two respondents collectively as "Adidas."

[2] The record does not reflect whether any Payless shoes are implicated solely by Adidas's trademark claims – or if so, how many.

and injunctive relief and invoked the same remedial provisions of the Lanham Act, 15 U.S.C. §§ 1116 and 1117. App., *infra*, 49a-53a. Its state-law claims sought relief under similar state statutes. *Id.* at 54a-59a.

Payless's answer asserted various affirmative defenses, including unclean hands, misuse of trademarks and alleged trade dress, and "contractual estoppel" arising out of the 1994 agreement that was the basis for Count 10 of Adidas's complaint. Answer to the Am. Cplt. at 8-9 (Mar. 5, 2002) (CR17).[3] Payless also alleged that, "[a]part from the THREE STRIPE DESIGN trademark, [Adidas] ha[d] no valid trade dress." *Id.* at 8.

3. *The Summary Judgment Ruling.* Payless moved for summary judgment on all of Adidas's claims, relying on the 1994 agreement. The Magistrate Judge recommended that summary judgment be granted in Payless's favor on the counts of Adidas's complaint that were based on the Three-Stripe Mark exclusively and on Payless's alleged breach of the 1994 agreement, but denied on the counts relating to the alleged trade dress (which included the Three-Stripe Mark). App., *infra*, 18a-32a. The Magistrate Judge reasoned that the 1994 agreement established forward-looking design standards binding on both parties concerning Payless's use of stripes on its athletic shoes, and therefore barred Adidas's trademark infringement claims based on agreement-compliant stripe designs. *Id.* at 28a-29a. He refused to apply this defense to preclude Adidas's trade *dress* claims, however, because these claims were "not based solely upon Payless's use of stripes, but upon use of stripes in combination with other design features." *Id.* at 31a. On January 6, 2003, the district court

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[3] Payless cites to Adidas's record excerpts filed in the Ninth Circuit as "ER," and to documents in the District Court Clerk's Record as "CR."

rejected both parties' objections, and adopted the Magistrate Judge's "reasoning and recommendations" in full. *Id.* at 15a-17a.[4]

4. *The First Rule 54(b) Ruling.* Adidas moved under Rule 54(b) for entry of a partial final judgment on its trademark and contract claims. In response, Payless filed a cross-motion opposing any Rule 54(b) certification that was limited to those claims, arguing that Adidas's still-pending trade dress claims were not only inextricably intertwined with the adjudicated claims, but also were subject to the same contract defense. Payless urged the court to certify the entirety of its summary judgment ruling, including its ruling on Adidas's trade dress claims.

In response, Adidas withdrew its certification motion, now arguing that "withholding all appeals until after the resolution of this case . . . guarantees that the Ninth Circuit will not have to consider any piecemeal appeals." Notice of Withdrawal of Plaintiffs' Mot. for Entry of Partial Final Judgment at 2 (Mar. 3, 2003) (CR70).

On April 11, 2003, the district court agreed with Adidas's later position and declined to enter a partial final judgment on any of its summary-judgment rulings. App., *infra*, 10a-14a. The court explained:

> In its current posture, *this action presents the rather typical situation in which summary judgment has been granted on a number of claims and denied on a number of claims*, and there is *no principled basis* for entering final judgment as to any or all of the [summary judgment order]. Entry of judgment would likely create the kind of multiple appeals that courts are instructed to avoid when evaluating motions brought under Rule 54(b).

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[4] Adidas did not object to the recommendation that summary judgment be granted on its claim for breach of the 1994 agreement (App., *infra*, 29a-30a), or seek reversal of that ruling on appeal.

Id. at 13a (emphasis added). "[A]n immediate appeal," the court added, "would likely delay rather than materially advance the ultimate termination of this litigation." *Id.* at 14a (internal quotations omitted).[5]

5. *Adidas's Second Amended Complaint and Payless's Answer.* Adidas filed a new complaint re-alleging the ten counts from its amended complaint, ER58-68, and adding two new common-law trade dress counts. ER68-69.[6] In addition to affirmative defenses similar to those in its earlier pleading (App., *infra*, 79a-81a), Payless's answer asserted two counterclaims. *Id.* at 82a-90a. The first sought damages (including attorneys fees and costs for defending the present lawsuit) for *Adidas's* breach of the 1994 agreement by prosecuting this action. *Id.* at 83a-86a. Payless's second counterclaim sought a declaratory judgment that Adidas had abandoned the Three-Stripe Mark, as well as cancellation of the mark. *Id.* at 86a-90a.

6. *The Second Rule 54(b) Ruling.* In June 2004, Adidas again requested Rule 54(b) certification in a motion Payless agreed not to oppose. Without explaining the departure from its prior Rule 54(b) order, the district court reversed course and entered partial final judgment on Adidas's trademark and contract claims (Counts 1, 2, 4, 6, 8, 9, and 10) by entering without change the proposed order Adidas submitted. App., *infra*, 6a-9a. That order recited that "[t]he Adjudicated Claims constitute claims for relief that are separate and distinct from the Unadjudicated

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[5] The court made this observation in rejecting Payless's alternative request for permission to appeal under 28 U.S.C. § 1292(b). The court concluded that its ruling "involved the straightforward interpretation of the terms of a contract," not " 'a controlling question of law' within the meaning of § 1292(b)." App., *infra*, 14a.

[6] The second amended complaint also added allegations concerning the allegedly protectible trade dress of Adidas's "Prajna" shoe. ER53-54. Like the Superstar, the claimed Prajna trade dress also prominently features the Three-Stripe Mark. ER54.

Claims"; "[t]here is little, if any, chance that the Court of Appeals will need to consider the same issues in any subsequent appeal"; "[t]he need for appellate review . . . will not be mooted by future developments in this Court"; and "[a]n immediate appeal . . . will preserve judicial resources by facilitating either a single trial of all claims or a settlement between the parties." *Id.* at 7a-8a. The court did not acknowledge the contradictions between this reasoning and its previous order, nor did it address Payless's two counterclaims. Those counterclaims and Adidas's trade dress claims remained pending in the district court.

7. *The Ninth Circuit's Decision in* Wood. After Adidas took an appeal, and merits briefing was completed, the Ninth Circuit issued its decision in *Wood v. GCC Bend, LLC*, 422 F.3d 873 (2005). *Wood* held that, in cases that are "routine" or "not . . . complicated," the Ninth Circuit's older, more stringent approach to Rule 54(b) certifications should be applied under which "the guiding principle is that '[a] similarity of legal or factual issues will weigh heavily against entry of judgment.'" *Id.* at 879, 881, 882 (quoting *Morrison-Knudsen Co. v. Archer*, 655 F.2d 962 (9th Cir. 1981) (Kennedy, J.)). In cases that are "complex and there is an important or controlling legal issue that cuts across . . . a number of claims," however, the more liberal approach of recent Ninth Circuit cases should be applied. 422 F.3d at 881. In creating this bifurcated approach, the court emphasized the burden imposed by piecemeal appeals: "The caseload of this court is already huge. More than fifteen thousand appeals were filed in the last year. We cannot afford the luxury of reviewing the same set of facts in a routine case more than once without a seriously important reason." *Id.*

In light of *Wood*, the propriety of the Rule 54(b) certification in this case (which the parties had not challenged in their briefing) was raised *sua sponte* by the court at oral argument, and was the subject of post-argument briefing. Payless's supplemental brief explained the substantial factual overlap between the adjudicated and

unadjudicated claims, pointed out that Payless's contract defense applied equally to Adidas's pending trade dress claims and therefore could arise again in a later appeal, and argued that later appeals were likely. Response to Adidas's Supp. Br. re: Jurisdiction at 2-7 (Dec. 2, 2005).

8. *The Ninth Circuit's Decision in This Case.* The panel reversed by a 2-1 vote. App., *infra*, 1a-5a. The majority first found that the district court's entry of judgment was proper, and that appellate jurisdiction accordingly existed under 28 U.S.C. § 1291. As an initial matter, the majority noted that *Wood* "[r]ecently . . . held that, in a *routine* case, when the facts on all claims and issues entirely overlap, and successive appeals are essentially inevitable, a Rule 54(b) request should *not* be granted." App., *infra*, 2a (internal quotations omitted; emphasis added).

Here, the panel acknowledged, "[s]ubstantive consideration of Adidas's trademark claims involves facts that overlap with those related to the trade dress claims." App., *infra*, at 3a. Nevertheless, the panel gave three reasons why the Rule 54(b) order satisfied the *Wood* framework. *First*, the majority stated, without explanation, that "the claims that remain before the District Court involve the factually and legally distinct issue of trade dress infringement." *Id. Second*, and echoing language in *Wood*, the Ninth Circuit reasoned that the disposition of Adidas's trademark claims "revolves around a single issue, interpretation of the 1994 settlement agreement." *Id.* Under *Wood*, this triggered a much more deferential review of the district court's certification decision.

Third, the majority invoked considerations of judicial economy – but in doing so relied on the assumption that, *on the merits*, it would be reversing the summary judgment in Payless's favor: "Because, as we hold *infra*, the District Court's summary judgment order was based on an erroneous interpretation of the 1994 settlement agreement, Adidas's trademark claims would" eventually have to "be remanded to the District Court for yet another full

trial" if appellate jurisdiction were found to be lacking and review was deferred until after a trial on the remaining claims. App., *infra*, 3a. "[B]y not granting the Rule 54(b) request, the District Court would have increased the likelihood of two full trials comparing the similarities between Adidas's and Payless's shoe designs." *Id.*

Turning to the merits, the majority reversed in a brief discussion focusing solely on the release in the 1994 agreement, but making no mention of the agreement's specification of design standards for Payless's use of stripes on its athletic shoes, which had been the focus of the district court's decision. App., *infra*, 4a.

Judge Kleinfeld (the only member of the panel who had sat on *Wood*) dissented from the jurisdictional holding:

> The majority reads *Wood v. GCC Bend, LLC* too narrowly. There is a significant factual overlap between the issues on appeal in this case and those still pending in the district court and the issue may well give rise to additional appeals based on the further proceedings of the district court. *Wood* should be the end of this appeal.

App., *infra*, 5a (footnotes omitted).

REASONS FOR GRANTING THE PETITION

This case offers the Court a prime opportunity to resolve pervasive conflicts and confusion in the circuits concerning important and recurring questions as to the meaning of Rule 54(b) and the scope of federal appellate jurisdiction. This Court has not given sustained attention to Rule 54(b) since *Curtiss-Wright Corp. v. General Electric Co.*, 446 U.S. 1 (1980). Further review would provide much-needed guidance to the lower courts and permit correction of the novel and wholly unwarranted approach to Rule 54(b) certifications recently adopted by the Ninth Circuit in *Wood v. GCC Bend, LLC*, 422 F.3d 873 (2005), and applied with erroneous results in this case.

As we explain below, the circuits are sharply divided not only over the particulars of how the Rule 54(b) inquiry should be conducted but also, more generally, over whether the rule is to be sparingly or liberally applied. Following this Court's decision in *Curtiss-Wright*, the Ninth Circuit, in an opinion by then-Judge Kennedy, became a powerful proponent of the sparing approach. *Morrison-Knudsen Co. v. Archer*, 655 F.2d 962 (1981), made clear that "[j]udgments under Rule 54(b) must be reserved for the unusual case" and should not be entered where the certified and remaining causes of action are "logically related, both from a factual and a legal standpoint." *Id.* at 965-66. Although *Morrison-Knudsen* has been followed by other circuits, the Ninth Circuit later repudiated it as "outdated and overly restrictive," instead embracing a supposed "trend toward greater deference to a district court's decision to certify under Rule 54(b)." *Texaco v. Ponsoldt*, 939 F.2d 794, 798 (9th Cir. 1991).

Wood correctly resuscitated *Morrison-Knudsen* – but only in cases that are "routine" or "not . . . complicated." In all other cases, *Wood* explained, *Ponsoldt*'s more liberal approach will continue to apply, and district courts' Rule 54(b) certifications will receive great deference. As this case amply demonstrates, however, the *Wood* framework is amorphous and utterly unworkable in practice – as well as wrong in principle. Beyond that, the Ninth Circuit, in upholding an erroneous Rule 54(b) certification in this case, relied on considerations that have been rejected by other circuits. The Court should take this opportunity to disapprove the Ninth Circuit's misguided approach before it wreaks havoc in the many district courts within this large circuit.

I. The Ninth Circuit's Decision Conflicts With The Decisions Of Other Circuits In Multiple Respects.

A. *Sparing Versus Liberal Use of Rule 54(b).* The Ninth Circuit's decisions in this case and in *Wood* seek to straddle a fundamental divide in the lower courts over the

proper application of Rule 54(b). When the Rule was amended to include its operative provisions relating to multi-claim cases, the Advisory Committee made clear that, in keeping with the "ancient policy" disfavoring piecemeal appeals, the remedy of Rule 54(b) certification should be reserved for "the infrequent harsh case." Fed. R. Civ. P. 54(b) adv. comm. note (1946).

Numerous courts continue to cite the Advisory Committee comment, emphasizing that Rule 54(b) departs from the "complete-finality" requirement only in "the infrequent harsh case." *See, e.g., Southeast Banking Corp. v. Bassett*, 69 F.3d 1539, 1547 (11th Cir. 1995); *General Acquisition, Inc. v. GenCorp, Inc.*, 23 F.3d 1022, 1027 (6th Cir. 1994); *Anthuis v. Colt Indus. Operating Corp.*, 971 F.2d 999, 1004 (3d Cir. 1992). *See also Morrison-Knudsen*, 655 F.2d at 965 (Rule 54(b) certifications "must be reserved for the unusual case").

Several circuits have expressly endorsed then-Judge Kennedy's analysis in *Morrison-Knudsen*. Thus, reversing a certification order in *Ebrahimi v. City of Huntsville Board of Education*, 114 F.3d 162 (1997), the Eleventh Circuit quoted *Morrison-Knudsen*'s teaching that Rule 54(b) "must be reserved for the unusual case," explained that circumstances warranting certification "will be encountered *only rarely*," and cautioned that district courts must "exercise the *limited* discretion afforded by Rule 54(b) *conservatively*." *Id.* at 166 (emphasis added). Similarly, *Spiegel v. Trustees of Tufts University*, 843 F.2d 38 (1st Cir. 1988), explains that "[w]here, as here, the dismissed and surviving claims are interlocking, only 'unusual and compelling' circumstances" will warrant entry of a Rule 54(b) judgment. *Id.* at 45 (quoting *Morrison-Knudsen*, 655 F.2d at 966); *see also Braswell Shipyards, Inc. v. Beazer East, Inc.*, 2 F.3d 1331, 1335 (4th Cir. 1993); *Solomon v. Aetna Life Ins. Co.*, 782 F.2d 58, 62 (6th Cir. 1986); *Hayden v. McDonald*, 719 F.2d 266, 270 (8th Cir. 1983).

In contrast to these multiple circuits, other circuits have ruled that the "infrequent harsh case" standard has been "abrogat[ed]," seizing on this Court's statement in *Curtiss-Wright* that "the phrase 'infrequent harsh case' in isolation is neither workable nor entirely reliable as a benchmark for appellate review." 446 U.S. at 10; *see Swope v. Columbia Chemicals Co.*, 281 F.3d 185, 193 (5th Cir. 2002); *Ginett v. Computer Task Group, Inc.*, 962 F.2d 1085, 1095 (2d Cir. 1992) ("[N]ow that the garden-variety civil complaint often involves multiple claims and/or multiple parties, we cannot, as the Supreme Court has recognized, hide behind the old 'infrequent harsh case' chestnut."); *Federal Savs. & Loan Ass'n v. Cribbs*, 918 F.2d 557, 559 (5th Cir. 1990); *Hudson River Sloop Clearwater, Inc. v. Department of Navy*, 891 F.2d 414, 419 (2d Cir. 1989). The Ninth Circuit's present-day expansive reading of Rule 54(b) (at least in cases the court deems "complicated" or non-"routine") also has one foot in this camp. Under *Wood*, the Ninth Circuit in non-routine cases will afford "great deference" to district court certification decisions,[7] focusing primarily on a practical assessment of whether certification "will aid in the efficient resolution of the action," rather than the degree of overlap between adjudicated and remaining claims.[8] Under this "pragmatic" approach, the

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[7] *Franklin v. Fox*, 312 F.3d 423, 429 n.2 (9th Cir. 1992); *see also Bingham v. City of Manhattan Beach*, 341 F.3d 939, 942 n.1 (9th Cir. 2003) (noting the "trend towards greater deference to a district court's decision to grant a Rule 54(b) motion").

[8] *See, e.g., Noel v. Hall*, 341 F.3d 1148, 1154 n.2 (9th Cir. 2003); *Texaco, Inc. v. Ponsoldt*, 939 F.2d 794, 798 (9th Cir. 1991) (rejecting *Morrison-Knudsen* as "outdated and overly restrictive"; certification appropriate although adjudicated and remaining claims "require proof of the same facts," where immediate appeal "will streamline the ensuing litigation"); *Continental Airlines, Inc. v. Goodyear Tire & Rubber Co.*, 819 F.2d 1519, 1525 (9th Cir. 1987) (although ruling "eliminated none of the parties and left open potentially full recovery," upholding certification the court believed would "streamline further litigation").

court has candidly acknowledged that "issuance of a Rule 54(b) order is a fairly routine act that is reversed only in the rarest of instances." *James v. Price Stern Sloan, Inc.*, 283 F.3d 1064, 1068 n.6 (9th Cir. 2002) (quoted in *Bingham v. City of Manhattan Beach*, 341 F.3d 939, 942 n.1 (9th Cir. 2003)).

This disagreement is not mere semantics; it reflects real and substantial confusion over whether Rule 54(b) is to be applied expansively or narrowly. And while the Second Circuit has suggested that the "infrequent harsh case" standard is outmoded because "what was 'infrequent' in 1946 has become normal in 1992," *Ginett*, 962 F.2d at 1094, other decisions suggest that ever-expanding appellate caseloads justify a narrower – not broader – reading of Rule 54(b). *See, e.g., Minority Police Officers Ass'n v. City of South Bend*, 721 F.2d 197, 200-01 (7th Cir. 1983) (Posner, J.) (earlier, broader readings of the Rule "may be ripe for reexamination" in light of burgeoning federal appellate caseloads).[9] This basic philosophical divide is largely traceable to disagreements over the meaning of this Court's decision in *Curtiss-Wright* – disagreements only this Court can resolve.

B. *Defining A "Claim for Relief" and Determining Whether It Is "Distinctly Separate" From Unresolved Claims.* In upholding the Rule 54(b) certification over Judge Kleinfeld's dissent, the majority reasoned that Adidas's trademark and contract claims were "factually and legally distinct" from the claims involving the "issue of trade dress infringement" that remained pending. App., *infra*, 3a. The Ninth Circuit reached that conclusion even while later acknowledging that "[s]ubstantive consideration of Adidas's

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[9] Those caseloads only continue to expand. As reported by the Administrative Office of the U.S. Courts, "[f]ilings in the regional courts of appeals rose 9 percent to an all-time high of 68,473 [in the year ending September 30, 2005], marking the *10th consecutive record-breaking year* and 11 consecutive years of growth." JUDICIAL BUSINESS OF THE UNITED STATES COURTS 13 (2005) (emphasis added).

trademark claims involves facts that overlap with those related to the trade dress claims," because both sets of claims would require the factfinder to "compare[e] the similarities between Adidas's and Payless's shoe designs." *Id.* The Ninth Circuit's determination is reflective of deep confusion in the lower courts over the proper interpretation of "claim for relief" in Rule 54(b), and the degree of separateness necessary to sustain certification.

Rule 54(b) authorizes the entry of a partial judgment in multiple-claim cases only if "*more than one claim for relief* is presented in an action, whether as a claim, counterclaim, cross-claim, or third-party claim." Fed. R. Civ. P. 54(b) (emphasis added). Where that threshold requirement is satisfied, the Rule authorizes a district court to enter a judgment "as to *one or more but fewer than all* of the claims" for relief based on a determination that "there is no just reason for delay." *Id.* (emphasis added). Although Rule 54(b) uses the term "claim for relief," it does not define it. "It is clear," however, "that multiple *causes of action* do not equate to multiple *claims* for purposes of Rule 54(b)." 10 J. MOORE, MOORE'S FEDERAL PRACTICE § 54.22[2][b], at 54-52 (3d ed. 2003) (emphasis added) (citing multiple authorities). The Advisory Committee has suggested that district courts should certify resolved claims only if they are "distinctly separate" from the remaining claims. Fed. R. Civ. P. 54(b) adv. comm. note (1946).

As courts and commentators have noted, "the test for determining whether multiple claims are presented for purposes of Rule 54(b)" – an issue that is "critical to the application of the rule" and involves a "jurisdictional prerequisite to judgment under Rule 54(b)" – "has not been definitively established." 10 J. MOORE, *supra*, §§ 54.22[2][b][i], 54.22[2][b][ii], at 54-51, 54-56; *Eldredge v. Martin Marietta Corp.*, 207 F.3d 737, 741 (5th Cir. 2000) (meaning of "claim for relief" an "unsettled area of the law"; canvassing the three different definitions which "have percolated amongst the circuits"); *Oklahoma Turnpike Auth. v. Bruner*, 259 F.3d 1236, 1242 (10th Cir. 2001)

("the exact definition of 'claim' for purposes of Rule 54(b) is unsettled"). Similarly, "courts have encountered great difficulty in stating any reliable litmus for identifying" whether a district court's ruling resolves "a distinct 'claim for relief' for purposes of Rule 54(b)." 10 J. MOORE, *supra*, §§ 54.22[2][b][i], at 54-55; *Southeast Banking Corp. v. Bassett*, 69 F.3d 1539, 1547 (11th Cir. 1995) ("courts have frequently observed that the line between deciding one of several claims and deciding only part of a single claim is very obscure"); *Tolson v. United States*, 732 F.2d 998, 1001 (D.C. Cir. 1984) (Ginsburg, J.) ("We recognize that Rule 54(b) precedent is untidy, and that courts have been completely unable to settle on a single test for determining when claims are 'separate' "; internal quotations omitted).

The Ninth Circuit's decision in this case is reflective of – and compounds – this confusion.[10] In dissent, Judge Kleinfeld argued that appellate jurisdiction was lacking because of the "significant factual overlap" between Adidas's adjudicated and unadjudicated causes of action (App., *infra*, 5a) – an overlap the majority itself acknowledged, but found inconsequential. The same confusion and disagreement is reflected in the district court's two Rule 54(b) orders. Although the order entering a Rule 54(b) judgment stated without explanation that the adjudicated and unadjudicated "claims" were "separate and distinct" (App., *infra*, 7a), the district court had previously concluded that "this action presents the rather typical situation in which [partial] summary judgment has been granted" and there was "no principled basis for entering a final judgment as to any or all of [its summary judgment] Order." *Id.* at 13a.

In sharp contrast to the Ninth Circuit's approach, which minimizes factual overlap in favor of considerations of expedience, other circuits have ruled that claims are

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[10] Indeed, *Wood* specifically cited the "difficult[ ]" and "mystical[ ]" nature of determining whether claims were in fact separate as justification for the Ninth Circuit's "embrace[ ] [of] 'a more pragmatic approach' " to Rule 54(b) certifications. 422 F.3d at 880 (citation omitted).

"truly separate and distinct" under Rule 54(b) only when they have "minimal factual overlap." *Lottie v. West Am. Ins. Co.*, 408 F.3d 935, 939 (7th Cir. 2005). Thus, in *Minority Police Officers*, *supra*, Judge Posner explained that time-barred claims of discrimination in a City's hiring and promotion policies were inseparable from the timely discrimination claims which remained pending. While the time-barred acts could not themselves "support a claim for relief," he explained, those "early acts would still be admissible, and would undoubtedly be introduced, to show the defendants' discriminatory motives and the scope and pattern of their unlawful conduct" at a trial of the timely claims. 721 F.2d at 201. *See also Factory Mut. Ins. Co. v. Bobst Group USA, Inc.*, 392 F.3d 922, 925 (7th Cir. 2004) (Easterbrook, J.) (rejecting certification where the same failure-to-inspect allegations underlying a dismissed claim were invoked in defense of remaining claim).

Like the Seventh Circuit, the Sixth Circuit has made clear that "although causes of action do not involve identical elements," claims are not separable where "both causes of action arose out of the same aggregate of operative facts and seek to recover for the same underlying injury." *Lowery v. Federal Express Corp.*, 426 F.3d 817, 821 (6th Cir. 2005). As the Eleventh Circuit has put it, "when the factual underpinnings of the adjudicated and unadjudicated claims are intertwined, courts should be hesitant to employ Rule 54(b)." *Ebrahimi v. City of Huntsville Board of Education*, 114 F.3d 162, 167 (11th Cir. 1997); *see also Southeast Banking Corp. v. Bassett*, 69 F.3d 1539, 1550 (11th Cir. 1995) (although claims allege different species of corporate management misconduct, certification improvident where "[a]n underlying theme of managerial entrenchment runs through the entirety of the trustee's complaint" and "[t]he facts and any evidence" on the claims "overlap considerably"); *Kersey v. Dennison Mfg. Co.*, 3 F.3d 482, 487 (1st Cir. 1993) (existence of "interlocking" facts betwee claims "counsels strongly against Rule 54(b) certification"); *Sussex Drug Prods. v. Kanasco, Ltd.*, 920 F.2d 1150, 1156 (3d Cir. 1990) (vacating certification

based on "interlocking factual relationship of the various counts").[11]

C. *Certification When The Adjudicated "Claims For Relief" Are Resolved Based On A Single "Issue" or Legal Defense.* In upholding the Rule 54(b) order, the Ninth Circuit thought it significant that the district court's partial summary judgment had rested on the resolution of a "single legal *issue*" – namely, Payless's defense based on an "interpretation of the 1994 settlement agreement." App., *infra*, 3a (emphasis added). This rationale has been rejected by other circuits as an appropriate basis for a Rule 54(b) certification.

The Seventh Circuit, for example, has emphasized that Rule 54(b) does not "provide an option to the district court to certify issues for interlocutory appeal" (as may be done, under limited circumstances and with the concurrence of the appellate court, pursuant to 28 U.S.C. § 1292(b)). *Lottie v. West Am. Ins. Co.*, 408 F.3d 935, 939 (2005). "Rather," the court explained, Rule 54(b) "allows appeal without delay of *claims* that are truly separate and distinct from those that remain pending in the district court, where 'separate' means having *minimal factual overlap*." *Id.* (emphasis added). Thus, in the Seventh Circuit's view, it is *claims*, not *issues*, that must be compared under Rule 54(b). Otherwise,

> Rule 54(b) would amount to nothing more than an option on the district court's part to certify

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[11] *See also Jordan v. Pugh*, 425 F.3d 820, 829 (10th Cir. 2005) (McConnell, J.) ("Interrelated legal claims and alternative theories for recovery should be litigated together and appealed together."). Perhaps because Rule 54(b) refers to a "claim *for relief*," some courts have examined not only the factual basis for the various claims, but also the nature of the relief sought. *See, e.g., id.* (fact that plaintiff's "facial vagueness and overbreadth claims seek the same relief also indicates that they are not distinct and separable claims, but rather alternative theories for recovery on the same claim"); *Gerardi v. Pelullo*, 16 F.3d 1363, 1371 (3d Cir. 1994); *Braswell Shipyards, Inc. v. Beazer East, Inc.*, 2 F.3d 1331, 1333-34 (4th Cir. 1993) (finding the "threat of double recovery" a "compelling reason" to vacate Rule 54(b) certification). The panel majority ignored this consideration.

> issues for interlocutory appeal. . . . To keep Rule 54(b) distinct from § 1292(b), we have insisted that Rule 54(b) be employed only when the subjects of the partial judgment do not overlap with those ongoing in the district court.

Factory Mut. Ins. Co. v. Bobst Group USA, Inc., 392 F.3d 922, 924 (7th Cir. 2004) (citations omitted; vacating Rule 54(b) judgment where, despite overlap between claim and counterclaim, district judge justified certification "because the only issue actually resolved . . . affects the counterclaim alone").

The Sixth Circuit has also squarely rejected the Ninth Circuit's "apples to oranges," "issues to claims" comparison. In *Lowery*, *supra*, the district court dismissed plaintiff's Title VII claims for lack of an "adverse employment action," but held the defense inapplicable to a separate contract claim. The court then entered partial final judgment, reasoning that the "adverse employment action" issue related solely to the Title VII claims. The Sixth Circuit reversed, explaining:

> By *focusing on the adverse action issue*, the district court's analysis *overlooks the inherent inseparability of the adjudicated and unadjudicated claims* in this case. Instead, the interrelationship of the claims themselves weighs heavily against certification under Rule 54(b).

426 F.3d at 822 (emphasis added); *see also id.* at 823 (because defendant argued that "adverse action" requirement also defeated plaintiff's contract claim, the defense would arise again "if a second appeal were taken after resolution of the breach of contract claim"); *Braswell Shipyards, Inc. v. Beazer East, Inc.*, 2 F.3d 1331, 1336 & n.4 (4th Cir. 1993) ("It is difficult to discern what the district court meant" by referring to "issues of first impression" in certification order; noting that § 1292(b) – *not* Rule 54(b) – addresses the situation of "a controlling question of law"); *Ultra-Precision Mfg. Ltd. v. Ford Motor Co.*, 338 F.3d 1353, 1358-59 (Fed. Cir. 2003) ("Section 1292(b) more appropriately addresses the appeal of issues within a claim. . . .").

Other circuits have also rejected the Ninth Circuit's rationale where, as here, the "single legal issue" is an affirmative defense applicable to unadjudicated claims:

> In general, "Rule 54(b) does not allow for certification of a defense." However, a defense may be certified when, as here, the defense is "implicitly and indirectly" certified with the claim against which it is raised. Nonetheless, if a certain defense is applicable to *all claims* in an action . . . then we believe that the district court *must adjudicate all the claims, not just certain selected claims, before an appeal may be taken.*

Oklahoma Turnpike Auth. v. Bruner, 259 F.3d 1236, 1243 (10th Cir. 2001) (emphasis added) (quoting *W.L. Gore & Assocs., Inc. v. International Med. Prosthetics Res. Assocs., Inc.*, 975 F.2d 858, 863 (Fed. Cir. 1992)).

D. *The "Avoidance of Two Trials" Rationale.* In upholding the Rule 54(b) certification, the Ninth Circuit also explained that it served the salutary purpose of "allow[ing] consideration of Adidas's trademark and trade dress claims in one trial." App., *infra*, 3a. That was so, the Ninth Circuit explained, "[b]ecause, as we hold *infra*, the District Court's summary judgment order was based on an erroneous interpretation of the settlement agreement." *Id.* "[B]y not granting the Rule 54(b) request, the District Court would have increased the likelihood of two full trials comparing the similarities between Adidas's and Payless's shoe designs." *Id.*

While this consideration occasionally has been invoked by other courts in a similarly off-hand fashion,[12]

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[12] *See, e.g., Grand River Enterprises Six Nations, Ltd. v. Pryor*, 425 F.3d 158, 165 (2d Cir. 2005); *Carter v. City of Philadelphia*, 181 F.3d 339, 346-47 (3d Cir. 1999); *Advanced Magnetics, Inc. v. Bayfront Partners, Inc.*, 106 F.3d 11, 17 (2d Cir. 1997).

other circuits have rejected this precise rationale, holding that the mere possibility of successive trials is simply not enough to support a Rule 54(b) certification. As the First Circuit has observed:

> The hypothetical portrait of additional trials painted by plaintiff looks to us to be not only speculative, but sophistic. Virtually *any* interlocutory appeal from a dispositive ruling said to be erroneous contains the potential for requiring a retrial. . . . To entertain an early appeal just because reversal of a ruling made by the district court *might* transpire and *might* expedite a particular appellant's case would defoliate Rule 54(b)'s protective copse. . . . This appeal was convenient for the parties, nothing more.

Spiegel v. Trustees of Tufts College, 843 F.2d 38, 46 (1st Cir. 1988) (emphasis original); *accord Kersey v. Dennison Mfg. Co.*, 3 F.3d 482, 488 (1st Cir. 1993) (potential that "immediate appeal . . . might avoid two separate trials" "is rarely, if ever, a self-sufficient basis for a Rule 54(b) certification"); *Lottie*, 408 F.3d at 940 ("The risk to the defendant of proceeding to trial after a partial summary judgment has been entered is not a reason to grant a Rule 54(b) judgment."); *Indiana Harbor Belt R.R. Co. v. American Cyanamid Co.*, 860 F.2d 1441, 1446 (7th Cir. 1988) ("there is no exception to the general rule" of complete finality to alleviate the possibility of "one appeal sandwiched between two trials").

II. The Issues Presented Are Important And Recurring.

There can be little doubt that the proper interpretation of Rule 54(b) is vitally important to the administration of justice in the federal courts. It affects the structure and duration of multi-claim and multi-party litigation, because further district court proceedings are often stayed (as they were here for two years) pending completion of an interlocutory appeal. More significantly, Rule 54(b)'s

operation has a substantial impact on the workload of the courts of appeals, and the division of labor between the trial and appellate courts.

These effects flow from the nature of Rule 54(b) itself, which authorizes district courts to act unilaterally as "dispatcher[s]" of cases to the courts of appeals. *Sears, Roebuck & Co. v. Mackey*, 351 U.S. 427, 435 (1956). As Judge Posner has emphasized, although Rule 54(b) may be a useful device when properly limited, "[t]here are grave practical objections to reading the rule broadly." *Minority Police Officers*, 721 F.2d at 200. In particular:

> The caseload of the federal courts of appeals has increased faster than that of any other component of the federal judiciary, and is now eight times as great as it was in 1960, while the number of court of appeals judges has less than doubled.[13] Rule 54(b) liberally construed and applied has a tremendous potential to increase our caseload still more rapidly, because its natural tendency is to generate multiple appeals in the same case. Unlike an interlocutory appeal under 28 U.S.C. § 1292(b), which is allowed only when the district court and the court of appeals agree that the appeal brings up a question of law that may control the entire litigation and thus enable it to be disposed of finally in that appeal, a Rule 54(b) appeal requires only the district judge's certification and is allowed though a part of the case remains for disposition by the district court.

Id.

Moreover, Rule 54(b) judgments burden the appellate courts even if successive appeals do not raise overlapping issues. As Judge Posner lamented, "while each appeal in a

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[13] The severely upward trend in appellate caseloads has, if anything, accelerated since Judge Posner's observations. *See supra* note 9.

series of multiple appeals in the same case should be simpler to decide than would be an appeal from a final judgment disposing of the entire lawsuit, the greater simplicity will usually be outweighed by the burden on this court of having to reacquaint itself again and again with at least the basic facts of the case." 721 F.2d at 200. Other courts of appeals have echoed these concerns. *See, e.g., Ebrahimi*, 114 F.3d at 167; *Southeast Banking Corp. v. Bassett*, 69 F.3d 1539, 1548 (11th Cir. 1995); *Harriscom Svenska AB v. Harris Corp.*, 947 F.2d 627, 631 (2d Cir. 1991); *Sussex Drug Prods. v. Kanasco, Ltd.*, 920 F.2d 1150, 1156 (3d Cir. 1990).

It is equally clear, moreover, that the issues raised by the petition arise with great regularity. So much is apparent from the number of reported cases cited above (and in the annotations to Rule 54(b) itself). But the frequency is no doubt far higher than the reported cases suggest, because Rule 54(b) issues are often resolved (as they were here) in unpublished decisions.

A significant cause of this large volume of litigation is the lack of guidance in this Court's prior decisions. Although this Court has addressed Rule 54(b) on several occasions, it has specifically reserved the issue of the meaning of a "claim for relief," and has provided the lower courts with only minimal guidance as to how Rule 54(b) must be interpreted and administered. Thus, in two early cases, *Sears, Roebuck & Co. v. Mackey*, *supra*, and *Cold Metal Process Co. v. United Engineering & Foundry Co.*, 351 U.S. 445 (1956), the Court did little more than resolve several basic questions about Rule 54(b)'s validity and meaning. In *Mackey*, the Court reviewed the Rule's development, acknowledged the "importance of the issue" of Rule 54(b)'s scope "in determining appellate jurisdiction," and rejected the argument that Rule 54(b) was invalid

because it "attempts to make an unauthorized extension of § 1291." 351 U.S. at 429, 436.[14]

In *Cold Metal Process*, the Court confirmed that a judgment could be certified under Rule 54(b) even if the unresolved claim (there, a counterclaim) "arises in part out of the same transaction as does the adjudicated claim." 351 U.S. at 446. In upholding the certification order, this Court noted that the remaining counterclaim was "filed long after the principal proceeding was begun," was "in the nature of an action ancillary to the principal proceeding[,] and b[ore] a separate case number." *Id.* Under Rule 54(b), the Court added, the "relationship of the adjudicated claims to the unadjudicated claims is one of the factors the District Court can consider in the exercise of its discretion." *Id.* at 452.

Notably, Justice Frankfurter, joined by Justice Harlan, filed a separate opinion in *Mackey* and *Cold Metal Process*, criticizing the majority for failing to "indicate what standards the district courts and courts of appeals are now to apply in determining when a decision is final" under Rule 54(b). *Mackey*, 351 U.S. at 439.

In *Liberty Mutual Ins. Co. v. Wetzel*, 424 U.S. 737 (1976), the Court reversed a Rule 54(b) certification. In doing so, it made clear that Rule 54(b) could not be used to certify a partial summary judgment for plaintiff on the issue of liability, where the appropriate remedy remained unresolved. The plaintiffs' complaint in *Wetzel*, the Court explained, "set forth but a single claim: that [defendant's] employee insurance benefits and maternity

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[14] *Mackey* upheld the entry of a Rule 54(b) certification of the dismissal of two out of four counts in a complaint. 351 U.S. at 430. But the Court provided little explanation for its determination that "each of the claims dismissed is a 'claim for relief' within the meaning of Rule 54(b)," and for rejecting the argument that the adjudicated claims were "so inherently separable from, or closely related to" the unresolved claims as to render the certification order erroneous. 351 U.S. at 436.

leave regulations discriminated against women employees in violation of Title VII." *Id.* at 743; *see also id.* (plaintiffs' "complaint advanced *a single legal theory* which was applied to *only one set of facts*") (emphasis added). The Court did not explain why a challenge not only to the employer's insurance benefits, but also to its maternity leave regulations, constituted one rather than two "claims for relief." And the Court added, unhelpfully, that it "need not here attempt any definitive resolution of the meaning of what constitutes a claim for relief within the meaning of the Rules." *Id.* at 743 n.4.

That reserved issue was again left unresolved in *Curtiss-Wright v. General Electric Co.*, 446 U.S. 1 (1980). There, the Court in upholding a Rule 54(b) certification ruled that "[t]he mere presence of" nonfrivolous counterclaims that might result in a set-off "does not render a Rule 54(b) certification inappropriate." *Id.* at 9. The significance of such counterclaims, this Court explained, "turns on their interrelationship with the claims on which certification is sought." *Id.*[15]

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[15] *Curtiss-Wright* did delineate "two aspects to the proper function of a reviewing court in Rule 54(b) cases." 446 U.S. at 10. First, "[t]he court of appeals must, of course, scrutinize the district court's evaluation of such factors as the interrelationship of the claims so as to prevent piecemeal appeals in cases which should be reviewed only as single units." *Id.* Second, "once such juridical concerns have been met," the court of appeals must review the "discretionary judgment of the district court" concerning its "assessment of the equities" as well as the "judicial administrative interests" involved. *Id.* at 8, 10. In making this second evaluation, it is "proper" for the district court "to consider such factors as whether the claims under review were separable from the others remaining to be adjudicated and whether the nature of the claims already determined was such that no appellate court would have to decide the same issues more than once even if there were subsequent appeals." *Id.* at 10. Yet the Court also cautioned that "because the number of possible situations is large, we are reluctant to fix or sanction narrow guidelines for the district courts to follow" in making this second determination. *Id.* at 10-11.

Taken together, the Court's decisions have provided only limited guidance about the meaning of a "claim for relief" and the considerations that should govern the certification decision. This lack of guidance has been widely noted. *See, e.g.*, 10 J. MOORE, MOORE'S FEDERAL PRACTICE § 54.22[2][b][i], at 54-51 (3d ed. 2003) (stating that *Mackey* "offered little guidance" to the lower courts); *Eldredge v. Martin Marietta Corp.*, 207 F.3d 737, 741 (5th Cir. 2000) (*Cold Metal* and *Wetzel* offered "judicial crumbs" concerning the meaning of a "claim for relief," which "have failed to lead the circuit courts to a consensus as to the handling of this confusing area of the law"); *Indiana Harbor Belt R.R. Co. v. American Cyanamid Co.*, 860 F.2d 1441, 1444 (7th Cir. 1988) ("Although the application of Rule 54(b) hinges on the definition of a 'claim for relief,' the Supreme Court has never conclusively defined the phrase."). Further review in this case would permit this Court to address these recurring and important issues.

III. The Decision Below Is Wrong.

Finally, this Court should grant review because the Ninth Circuit's newly minted approach in *Wood* to Rule 54(b) determinations – and its decision to uphold its appellate jurisdiction in this case – are manifestly incorrect. For starters, there is no basis whatsoever – none – in the text of Rule 54(b) or in this Court's decisions to support the Ninth Circuit's bifurcated approach to Rule 54(b) orders depending on whether the underlying litigation is "routine" or "not . . . complicated."

Nor is such a legal regime even remotely administrable. When is a case "routine"? How much complexity is too much? The utter unworkability of the *Wood* "framework" is apparent from the decision below – which is the first to apply it beyond *Wood* itself. As the dissent of Judge Kleinfeld (the only panel member who also participated in *Wood*) demonstrates, the *Wood* framework is vague and

indeterminate. Indeed, the district court agreed (at least initially) with Judge Kleinfeld that this case is routine. *See* App., *infra*, 13a ("this action presents" a "rather typical situation"). This Court should intervene now to correct the Ninth Circuit's missteps and avoid the colossal waste of judicial resources that inevitably will result when the scores of district judges in the Ninth Circuit struggle to make sense of and apply *Wood*'s bifurcated approach.

Equally mistaken was the Ninth Circuit's holding that the Rule 54(b) judgment in this case was proper. The court should have followed the approach of then-Judge Kennedy's opinion in *Morrison-Knudsen Co. v. Archer*, 655 F.2d 962 (9th Cir. 1981), adopted by other circuits, under which "[j]udgments under Rule 54(b) must be reserved for the unusual case" and should not be entered where the certified and remaining causes of action are "logically related, both from a factual and a legal standpoint." *Id.* at 965-66. Had the panel applied *Morrison-Knudsen*'s teaching that "[a] *similarity* of legal *or factual* issues will *weigh heavily* against entry of judgment under the rule," *id.* at 965 (emphasis added), it could not have upheld the Rule 54(b) order here. The adjudicated claims – for trademark infringement and breach of contract – are inextricably intertwined with, and arise out of substantially the same facts as, not only Adidas's unadjudicated trade dress claims, but also Payless's two unadjudicated counterclaims (for breach of the settlement agreement and cancellation of the Three-Stripe Mark). The trademark infringement claims were resolved on the basis of a contract-related defense that also applies to the unadjudicated trade dress claims. Adidas's adjudicated contract claim is also inextricably intertwined with that defense, and with Payless's unadjudicated breach of contract counterclaim.

Nor is this all. As Payless pointed out in the district court and in the Ninth Circuit, based on the existing record it appears that Adidas's trademark and trade dress claims seek to compare the same Adidas and Payless shoes, and those claims both include the Three-Stripe

Mark as an essential component. The panel majority *itself* recognized that "[s]ubstantive consideration of Adidas's trademark claims involves facts that overlap with those related to the trade dress claims" (App., *infra*, 3a); yet it then held that this acknowledged factual overlap *favored* – rather than defeated – certification. As if that were not enough, Payless's second counterclaim, which also remains pending, challenges the validity of the Three-Stripe Mark on which Adidas's certified trademark claims depend. The remedies sought by Adidas on its adjudicated trademark and unadjudicated trade dress counts are also substantially overlapping and rooted in the same statutes. *See* pages 3-4, *supra*. A case of greater factual and legal overlap is difficult to imagine.

Equally mistaken were the individual reasons the Ninth Circuit offered to uphold the Rule 54(b) order. The fact that the partial summary judgment ruling "revolve[d] around a single legal issue" (App., *infra*, 3a) cannot justify entry of a Rule 54(b) judgment. If it did, legal theories dismissed on the basis of *any* defense could be appealed immediately even though the same defense applied to unadjudicated claims, and even though the adjudicated and unadjudicated counts constituted only a single "claim for relief." That cannot be correct.

Acceptance of the Ninth Circuit's rationale would also destroy the distinction between Rule 54(b) and 28 U.S.C. § 1292(b). As discussed *supra* pages 17-18, unlike § 1292(b), Rule 54(b) is not a vehicle for certifying dispositive *issues* to the courts of appeals. Significantly, § 1292(b) authorizes permissive interlocutory appeals only when *both* the district court and the court of appeals agree that certain criteria are satisfied. As then-Judge Kennedy explained, § 1292(b) "permits the Court of Appeals to protect its docket by determining for itself whether to accept the issue for review." *Morrison-Knudsen*, 655 F.2d at 966. "This discretion in the Court of Appeals should not be evaded by the device of an inappropriate entry of judgment by the district court under Rule 54(b)." *Id.*; *see also Ebrahimi*, 114 F.3d at

168 n.1; *Spiegel v. Trustees of Tufts College*, 843 F.2d 38, 46 n.7 (1st Cir. 1988); 16 C. WRIGHT, A. MILLER & E. COOPER, FEDERAL PRACTICE AND PROCEDURE: JURISDICTION § 3929.1, at 404 (2d ed. 1996) ("As a matter of form and theory, Rule 54(b) is *a world apart* from discretionary § 1292(b) interlocutory appeals."). In this case, of course, the district court properly recognized that its summary judgment ruling could *not* meet § 1292(b)'s standards. *See* note 5, *supra*; *Ahrenholz v. Board of Trustees, Univ. of Ill.*, 29 F.3d 674, 676 (7th Cir. 2000) (Posner, J.) ("the question of the meaning of a contract, though technically a question of law . . . , is not what the framers of section 1292(b) had in mind").

The Ninth Circuit fared no better in upholding its own jurisdiction and the Rule 54(b) order on the ground that the certified claims were erroneously dismissed (and it would be reversing on the merits). Not only does this rationale require the court of appeals to conflate jurisdiction with the merits, and decide the latter as part of the former, but it would also apply *in any case* where the appellate court ultimately reversed. That cannot be right. Nor could a district court reasonably be expected to rely on a prediction of appellate reversal when making its initial certification decision.[16] Contrary to the Ninth Circuit's approach, this Court has cautioned that "interlocutory orders are not appealable on the mere ground that they may be erroneous." *Firestone Tire & Rubber Co. v. Risjord*, 449 U.S. 368, 379 (1981) (internal quotation omitted). Other circuits have recognized the serious practical problems in making the existence of jurisdiction dependent on the ultimate merits disposition – and have refused to do so. *See Stauffacher v. Bennett*, 969 F.2d 455,

[16] Forecasting reversal would be wholly unjustified as a factual matter – in the year ending March 31, 2005, *less than 12 percent* of private civil appeals resulted in reversal. ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS, FEDERAL JUDICIAL CASELOAD STATISTICS Table B-5 (2005).

459 (7th Cir. 1992) (Posner, J.) (addressing "conspiracy" theory of personal jurisdiction).

The panel majority's "avoid two trials" justification suffers from an even more fundamental flaw: it is so overbroad as to be completely meaningless. That rationale for a Rule 54(b) certification proves far too much: in *every* case in which a district court grants dispositive pretrial relief as to less-than-all of a plaintiff's claims, the possibility exists that the pretrial rulings will later be reversed, and a second trial required.

Finally, nothing in the *district court's* order shows that the Rule 54(b) certification (and therefore appellate jurisdiction) was proper. That order was adopted verbatim from a proposed order submitted by Adidas; and it reached a decision directly at odds with the court's previous ruling on the Rule 54(b) issue without so much as acknowledging, much less explaining, this volte-face. *See Oklahoma Turnpike Auth. v. Bruner*, 259 F.3d 1236, 1244 (10th Cir. 2001) (requiring district court to explain such a reversal). Beyond that, the district court's second Rule 54(b) decision *flatly contradicts* its prior ruling, which had reasoned: that entry of a Rule 54(b) judgment was "likely" to "create the kind of multiple appeals that courts are instructed to avoid when evaluating motions brought under Rule 54(b)"; that "there is no principled basis for entering final judgment as to any or all of the [summary judgment] Order"; and that certification "would likely delay rather than materially advance the ultimate termination of this litigation." App. *infra*, 13a-14a. Finally, the district court failed even to mention Payless's unadjudicated counterclaims for breach of the 1994 agreement and for cancellation of the Three-Stripe Mark. The substantial factual and legal overlap between those counterclaims and Adidas's trademark claims is undeniable. If anything, the district court's rubber-stamp

decision strongly confirms the need for further guidance from this Court concerning Rule 54(b)'s requirements.[17]

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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[17] Although the district court cited the possibility that an immediate appeal might facilitate settlement (App., *infra*, 8a), that speculative prospect cannot justify a Rule 54(b) certification, especially in light of all the other factors at work here. Reversing a similar certification, the Sixth Circuit recently emphasized that while facilitating settlement may be "a relevant consideration," "[t]hat does not mean, however, that Rule 54(b) certification may be used as a vehicle to leverage a settlement without regard to the undesirability of piecemeal appeals." *Lowery*, 426 F.3d at 823; *see also Doe v. City of Chicago*, 360 F.3d 667, 673 (7th Cir. 2004) (hopes of facilitating settlement cannot ratify otherwise improper certification); *Credit Francais Int'l, S.A. v. Bio-Vita, Ltd.*, 78 F.3d 698, 707 (1st Cir. 1996).

APPENDIX

166 Fed. Appx. 268

NOT FOR PUBLICATION

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

ADIDAS AMERICA, INC.; et al.,

Plaintiffs-Appellants,

v.

PAYLESS SHOESOURCE, INC.,

Defendant-Appellee.

No. 04-35553

D.C. No. CV-01-01655-RE

MEMORANDUM*

(Filed Jan. 5, 2006)

Appeal from the United States District Court
for the District of Oregon
James A. Redden, District Judge, Presiding

Argued and Submitted November 14, 2005
Portland Oregon

Before: FERGUSON, KLEINFELD, and GRABER, Circuit Judges.

Plaintiffs Adidas America, Inc., and Adidas-Salomon AG (collectively "Adidas") appeal the District Court's partial summary judgment order in favor of Defendant Payless Shoesource, Inc. ("Payless"). In its Lanham Act action, Adidas alleged that Payless infringed upon Adidas's

* This disposition is not appropriate for publication and may not be cited to or by the courts of this circuit except as provided by Ninth Circuit Rule 36-3.

trademark by selling footwear bearing confusingly similar imitations of Adidas's registered Three-Stripe Mark. The District Court held that a 1994 settlement agreement between Adidas and Payless precludes Adidas's current claims.

We reverse the District Court's summary judgment order and remand for further proceedings consistent with this disposition.

I.

As a threshold issue, we find we have jurisdiction to consider this appeal under 28 U.S.C. § 1291. Adidas raised ten claims before the District Court relating to trademark infringement and dilution, unfair competition, breach of contract, and trade dress infringement and dilution. On summary judgment, the District Court dismissed all of the claims, except those related to trade dress, because it concluded that the 1994 settlement agreement between the parties prevented Adidas from bringing any future claims against Payless based solely on Payless's use of stripe designs. The District Court later certified its partial judgment pursuant to Fed. R. Civ. P. 54(b).

When more than one claim for relief is presented to a court, Rule 54(b) allows that court to "direct the entry of a final judgment as to one or more but fewer than all of the claims or parties only upon an express determination that there is no just reason for delay and upon an express direction for the entry of judgment." Recently, we held that, in a routine case, when "the facts on all claims and issues entirely overlap, and successive appeals are essentially inevitable," a Rule 54(b) request should not be granted. *Wood v. GCC Bend, LLC*, 422 F.3d 873, 883 (9th

Cir. 2005). The present case is distinguishable from *Wood* because the current resolution of the summary judgment dispute regarding the claims certified pursuant to Rule 54(b) revolves around a single legal issue, interpretation of the 1994 settlement agreement, while the claims that remain before the District Court involve the factually and legally distinct issue of trade dress infringement.

Resolution of the present appeal will in fact facilitate swift and efficient resolution of all of Adidas's claims because it will once again allow consolidation of Adidas's trademark and trade dress claims in one trial. Otherwise, a full trial would have to be held as to Adidas's trade dress claims before this Court could determine whether Adidas's trademark claims were properly dismissed. Because, as we hold *infra,* the District Court's summary judgment order was based on an erroneous interpretation of the 1994 settlement agreement, Adidas's trademark claims would then be remanded to the District Court for yet another full trial. Substantive consideration of Adidas's trademark claims involves facts that overlap with those related to the trade dress claims. Therefore, by not granting the Rule 54(b) request, the District Court would have increased the likelihood of two full trials comparing the similarities between Adidas's and Payless's shoe designs. By granting the motion, the District Court properly conserved judicial resources.

We find that the Rule 54(b) certification of Adidas's claims was proper. Therefore, we have jurisdiction to consider this appeal.

II.

On the substance of the appeal, we hold that the District Court erred by granting summary judgment to Payless based on the 1994 settlement agreement. A plain reading of the agreement demonstrates that Adidas released only those claims against Payless that Adidas "brought or could have brought" before the dismissal of the action that was the subject of the settlement. The shoe stripe designs at issue in the present dispute, however, were not produced by Payless until after the 1994 agreement was concluded. Adidas could not have brought a claim against shoes not in existence prior to the execution of the settlement. *Cf. Botefur v. City of Eagle Point*, 7 F.3d 152, 157-58 (9th Cir. 1993) (holding that a release of "such claims or other matters aris[ing] from the beginning of time to the date of execution of this Agreement" did not protect the defendant from liability arising from unconstitutional conduct that occurred after the agreement's execution). Therefore, the 1994 settlement agreement does not preclude Adidas's present Lanham Act claims against Payless.

For this reason, we reverse the District Court's summary judgment order as to Adidas's first, second, fourth, sixth, eighth, and ninth claims and remand for further proceedings.

REVERSED and REMANDED.

KLEINFELD, Circuit Judge, dissenting in part and concurring in part:

I respectfully dissent from Part I of the majority's disposition. The majority reads *Wood v. GCC Bend, LLC*[1] too narrowly. There is a significant factual overlap between the issues on appeal in this case and those still pending in the district court and the issue may well give rise to additional appeals based on the further proceedings of the district court. *Wood* should be the end of this appeal.[2] We should reverse certification and dismiss the appeal.

As to Part II of the disposition pertaining to the merits of the case, I would agree fully with the majority's disposition, if I thought it appropriate to reach the merits.

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[1] *Wood v. GCC Bend, LLC*, 422 F.3d 873 (9th Cir. 2005).

[2] *Id.* at 880.

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IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF OREGON

ADIDAS AMERICA, INC. and **ADIDAS-SALOMON AG,** Plaintiffs, v. **PAYLESS SHOESOURCE, INC.,** Defendant.	No. CV01-1655 RE (Lead Case) RELATED CASE to CV03-1116 RE ~~**[PROPOSED]**~~ **ORDER GRANTING PLAINTIFFS' UNOPPOSED MOTION FOR ENTRY OF FINAL PARTIAL JUDGMENT** (Filed Jun. 4, 2004)

This matter came before the Court on Plaintiffs' Unopposed Motion For Entry of Final Partial Judgment. The Court has considered the materials submitted by the parties and the records and files herein. The Court hereby GRANTS the motion for entry of final judgment as to plaintiffs' claims for trademark infringement, trademark dilution, unfair competition and breach of contract (i.e., plaintiffs' 1st, 2nd, 4th, 6th, 8th, 9th and 10th claims for relief). In so ruling, the Court has determined that there is no just reason for delay in entering final judgment on these claims.

The Court makes the following specific findings in support of its decision to direct the entry of a final judgment under Fed. R. Civ. P. 54(b):

1. This case involves multiple claims for relief, including claims of trademark infringement, trademark dilution, unfair competition and breach of contract (the "Adjudicated Claims"), as well as claims of trade dress infringement and dilution (the "Unadjudicated Claims").

2. The Adjudicated Claims constitute claims for relief that are separate and distinct from the Unadjudicated Claims.

3. The Adjudicated Claims were conclusively resolved in favor of defendant by way of the Court's Order of January 6, 2003.

4. There is little, if any, chance that the Court of Appeals will need to consider the same issues on any subsequent appeal of this case, or that the Court of Appeals will be asked to determine any questions that still remain before this Court, because the Adjudicated Claims are distinct from the remaining Unadjudicated Claims.

5. The need for appellate review by the Court of Appeals of the Adjudicated Claims will not be mooted by future developments in this Court.

6. An immediate appeal of the ruling on the Adjudicated Claims will preserve judicial resources by facilitating either a single trial of all claims or a settlement between the parties.

7. Judge Edward Leavy of the Ninth Circuit Court of Appeals, who conducted a two-day mediation between the parties, has indicated his belief that an immediate appeal of the Adjudicated Claims would facilitate the efficient and swift resolution of this dispute.

In accordance with this Order, and pursuant to Fed. R. Civ. P. 54(b), the Clerk is directed to enter judgment forthwith.

IT IS SO ORDERED.

DATED this 3 day of June, 2004.

/s/ James Redden
The Honorable James Redden
United States District Court
Judge

Submitted by:

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IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF OREGON

ADIDAS AMERICA, INC., and ADIDAS-SALOMON AG, Plaintiffs, v. PAYLESS SHOESOURCE, INC. Defendant.	Civil No. 01-1655-JE ORDER (Filed Apr. 11, 2003)

JELDERKS, Magistrate Judge:

Plaintiffs Adidas America, Inc. and Adidas-Salomon AG (collectively "Adidas") bring this action asserting several unfair competition claims against defendant Payless Shoesource, Inc. (Payless). Payless seeks entry of a partial final judgment under Fed. R. Civ. P. 54(b) as to an Order dated January 6, 2003, granting in part and denying in part its motion for summary judgment. Payless also seeks an Order certifying the Order of January 6, 2003, as appropriate for immediate appeal under 28 U.S.C. § 1292(b), and staying further proceedings in this action pending final disposition of interlocutory appeals. I deny these motions.

BACKGROUND

In an Order dated January 6, 2003, Judge Haggerty adopted my recommendation that Payless's motion for summary judgment should be granted as to plaintiff's claims for trademark infringement, trademark dilution, unfair competition, and breach of contract, and denied as

to plaintiff's claims alleging violation of "Superstar" trade dress.

On February 4, 2003, plaintiff requested an order directing entry of a final judgment pursuant to Fed. R. Civ. P. 54(b) as to the claims upon which the motion for summary judgment was granted. Adidas sought this order so that it could appeal dismissal of certain of its claims before the remaining claims, which were not dismissed, were resolved in this action.

In a response to that motion filed on February 18, 2003, Payless agreed that entry of judgment pursuant to Rule 54(b) was appropriate as to the claims that were dismissed. However, Payless further asserted that the court should enter judgment as to "the entire Order" regarding the motion for summary judgment under Rule 54(b). In its "alternative cross-motion for Rule 54(b) certification,"[1] Payless also moved to stay resolution of the remaining claims, on which its motion for summary judgment had been denied, pending resolution of the parties' appeals. In a separate motion filed on March 14, 2003, Payless sought an order certifying the Court's Order of January 6, 2003, as immediately appealable under 28 U.S.C. § 1292(b).

Following Payless's response to its motion for entry of judgment under Rule 54(b), Adidas withdrew that motion. It now opposes Payless's alternative cross motion for "Rule 54(b) certification," for certification of appealability under

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[1] Though some decisions refer to "Rule 54(b) certification," this terminology "is a misnomer born of confusion between Rule 54(b) and 28 U.S.C. § 1292(b) . . . ." *Jones v. Price Stern Sloan, Inc.*, 283 F.3d 1064, 1067 n.6 (oth [sic] Cir. 2002).

28 U.S.C. § 1292(b), and for a stay of this action pending resolution of an interlocutory appeal.

DISCUSSION

1. Motion for "Rule 54(b) certification"

Rule 54(b) provides, in relevant part, that

> When more than one claim for relief is presented in an action, whether as a claim, counterclaim, cross-claim, or third-party claim, or when multiple parties are involved, the court may direct the entry of a final judgment as to one or more but fewer than all of the claims or parties only upon an express determination that there is no just reason for delay and upon an express direction for the entry of judgment.

Rule 54(b) "certification" is proper only if it will aid in the "expeditious decision" of an action. *Texaco, Inc. v. Ponsoldt*, 939 F.2d 794, 797 (9th Cir. 1991) (*quoting Sheehan v. Atlanta Int'l Ins. Co.*, 812 F.2d 465, 468 (9th Cir. 1987)). Entry of judgment under this rule is scrutinized to "prevent piecemeal appeals in cases which should be reviewed only as single units." *Id.* (*quoting McIntyre v. United States*, 789 F.2d 1408, 1410 (9th Cir. 1986) (citations omitted)).

Entry of judgment pursuant to Rule 54(b) is inappropriate here, because it would not aid in the expeditious resolution of the action, and could result in piecemeal appeals. Defendant Payless seeks "certification" of the entire Order regarding the motion for summary judgment, including the denial of its motion as to the "Superstar" trade dress claims. Absent some very unusual circumstances, this would not be appropriate, as a *denial* of a

motion for summary judgment is not generally appealable because it "does not finally dispose of any claim." *Safe Flight Instrument Corp. v. McDonnell-Douglas Corp*, 482 F.2d 1086, 1093 (9th Cir. 1973). In its current posture, this action presents the rather typical situation in which summary judgment has been granted on a number of claims and denied on a number of claims, and there is no principled basis for entering final judgment as to any or all of the Order of January 6, 2003. Entry of judgment would likely create the kind of multiple appeals that courts are instructed to avoid when evaluating motions brought under Rule 54 (b).

2. 28 U.S.C. § 1292(b)

Section 1292(b) provides, in relevant part, that

> When a district judge, in making in a civil action an order not otherwise appealable under this section, shall be of the opinion that such order involves a controlling question of law as to which there is substantial ground for difference of opinion and that an immediate appeal from the order may materially advance the ultimate termination of the litigation, he shall so state in writing in such order. The Court of Appeals which would have jurisdiction of an appeal of such action may thereupon, in its discretion, permit an appeal to be taken from such order. . . .

This section is an exception to the normal rule that only final judgments are appealable, and is therefore construed narrowly. *James*, 283 F.3d at 1067-68, n. 6. Though interlocutory orders such as denial of a motion for summary judgment are normally not immediately appealable, "in rare circumstances, the district court may approve an

immediate appeal" by certifying that the specific requirements of Section 1292(b) are satisfied. *Id.*

Defendant Payless has shown no exceptional circumstances that justify certification for appeal pursuant to Section 1292(b) of the routine Order granting in part and denying in part its motion for summary judgment. The Order in question involved the straightforward interpretation of the terms of a contract. Thought [sic] the parties may differ as to the correctness of the interpretation, it did not turn on "a controlling question of law" within the meaning of § 1292(b). Moreover, an immediate appeal would likely delay rather than "materially advance the ultimate termination" of this litigation.

3. Motion for a stay

In the absence of the entry of a final judgment pursuant to Rule 54(b) or certification for immediate appeal pursuant to 28 U.S.C. § 1292(b), there is no basis for staying this action.

CONCLUSION

Defendant's cross-motion for Rule 54(b) certification and for stay of litigation pending appeal (# 67) and motion for certification pursuant to 28 U.S.C. § 1292(b) and for a stay of litigation pending appeal (# 73) are DENIED.

DATED this 11th day of April, 2003.

/s/ John Jelderks
John Jelderks
U.S. Magistrate Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF OREGON

ADIDAS AMERICA, INC., and ADIDAS-SALOMON AG, Plaintiffs, v. PAYLESS SHOESOURCE, INC., Defendant.	Civil No. 01-1655-JE ORDER

HAGGERTY, Chief Judge:

Magistrate Judge Jelderks issued a Findings and Recommendation in this action (doc. 51) in which the Magistrate Judge recommended that defendant's motion to strike (doc. 28) be denied in part and granted in part, plaintiffs' motion to supplement (doc. 38) be denied, and defendant's amended motion for summary judgment (doc. 24) be granted as to plaintiffs' 1st, 2nd, 4th, 6th 8th, 9th and 10th claims and denied as the 3rd, 5th and 7th claims.

Plaintiffs filed objections to the portion of the Findings and Recommendation that concluded defendant is entitled to summary judgment on plaintiffs' 1st, 2nd, 4th, 6th 8th, and 9th claims. The matter was then referred to this court.

When a party objects to any portion of the Magistrate's Findings and Recommendation, the district court must make a *de novo* determination of that portion of the Magistrate's report. 28 U.S.C. § 636(b)(1)(B); *McDonnell Douglas Corp. v. Commodore Business Machines, Inc.*, 656 F.2d 1309, 1313 (9th Cir.1981).

The objections were filed in a timely manner. In the objections and the response, the parties requested oral argument. This request is denied. The court has given the file of this case a *de novo* review, and has also carefully evaluated the Magistrate's Findings and Recommendations, the objections, and the entire Record. Magistrate Judge Jelderks' reasoning and recommendations are sound, correct, and entitled to adoption.

Magistrate Judge Jelderks provided a thorough analysis of the facts and circumstances regarding this litigation, and it need not be repeated here. Plaintiffs object to the Magistrate Judge's interpretation of the parties' 1994 Settlement Agreement and its application to some of the claims being brought in the suit presently before the court. Plaintiffs assert it is "patently unreasonable" to hold that plaintiffs agreed "in the abstract" in 1994 to "give up a major post-sale concern," Objections at 8, and that the Magistrate Judge erred by failing to recognize that the Settlement Agreement is ambiguous because critical terms of the Agreement "have two diametrically opposed, yet reasonable interpretations." Objections at 9. Relatedly, plaintiffs contend the Magistrate Judge paid only "lip service" to the standards for summary judgment that require viewing the evidence in a light favorable to the non-moving party. Objections at 11.

The objections are overruled. The Magistrate Judge correctly concluded that the parties addressed the scope of plaintiffs' mark in their 1994 Settlement Agreement, and that the terms of that Agreement were clearly intended to apply to the shoes at issue in 1994 as well as future models of Payless athletic shoes. Sophisticated counsel for the parties drafted and agreed upon terminology that carefully established design restrictions that varied for two-, three-, and four-stripe shoe styles. Defendant agreed

not to order or sell certain-styled shoes in the future, and to abide by such restrictions so long as plaintiffs diligently and aggressively enforced similar restrictions against other retailers. The parties' Agreement was plainly forward-looking and not limited to the products in dispute in the 1994 litigation; this is underscored by the parties' contemplation in the Agreement of two-stripe shoe styles, which did not exist in 1994. This court concurs that the Agreement "can only be reasonably interpreted as imposing on Payless an ongoing obligation to refrain from selling shoes bearing the stripes prohibited under the agreement, and imposing on [a]didas a reciprocal ongoing obligation to refrain from taking legal action against Payless based solely on its use of stripes." Findings and Recommendation at 15.

CONCLUSION

Plaintiff's objections to the Magistrate Judge's conclusions are without merit, and this court adopts the Findings and Recommendation (doc. 51). Defendant's motion to strike (doc. 28) is denied in part and granted in part, plaintiffs' motion to supplement (doc. 38) is denied, and defendant's amended motion for summary judgment (doc. 24) is granted as to plaintiffs' 1st, 2nd, 4th, 6th 8th, 9th and 10th claims and denied as the 3rd, 5th and 7th claims.

IT IS SO ORDERED.

Dated this 6 day of January, 2003.

/s/ Ancer L. Haggerty
Ancer L. Haggerty
United States District Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF OREGON

ADIDAS AMERICA, INC., and ADIDAS-SALOMON AG, Plaintiffs, v. PAYLESS SHOESOURCE, INC., Defendant.	)	Civil No. 01-1655-JE FINDINGS AND RECOMMENDATION/ ORDER

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JELDERKS, Magistrate Judge:

Plaintiffs Adidas America, Inc. and Adidas-Salomon AG (collectively "Adidas") bring this action alleging various unfair competition claims against defendant Payless Shoesource, Inc. ("Payless"). Defendant Payless moves for summary judgment, and moves to strike portions of a declaration submitted in opposition to that motion. Plaintiff Adidas moves to supplement the record.

Defendant's motion to strike is granted in part and denied in part, and plaintiff's motion to supplement the record is denied. Defendant's motion for summary judgment should be granted in part and denied in part.

BACKGROUND

Adidas manufactures and sells various models of athletic shoes. For several decades, Adidas has used a "three stripe" design on athletic footwear sold worldwide. In 1994, the United States Patent and Trademark Office issued Adidas federal trademark registrations for the "Three Stripe" mark.

The "three stripe" design is an important part of the trade dress Adidas claims for its "Superstar" model athletic shoe. Other features which Adidas asserts make up the trade dress of the "Superstar" model include the placement of these stripes "parallel to equidistant small holes, a rubber 'shell toe,' a particularly flat sole and a colored portion on the outer back heel section, that identifies to

consumers that the origin of the product lies with adidas. . . ."

In 1994, defendant Payless sold athletic shoes that used a four stripe design. Adidas brought an action in the United States District Court for the Eastern District of New York alleging, in part, that Payless infringed its "three stripe" trademark by selling those shoes. *Adidas v. Payless Shoe Source, Inc.*, CV 94-3424 (E.D. N.Y. 1994). Adidas also alleged that defendant's use of stripes constituted a "false designation of origin and false description" of the shoes, constituted unfair competition, diluted its trademark, and injured its business reputation. That action was dismissed with prejudice after the parties reached a settlement agreement.

The parties' agreement resolving the 1994 litigation provided, in part, that

> 2. Payless acknowledges Adidas' ownership of the THREE STRIPE DESIGN and agrees, except as otherwise provided herein, not to order, sell or manufacture athletic shoes bearing three substantially straight parallel stripes on the side of the shoe running diagonally from the outsole forward to the lacing area.
>
> 3. Payless further agrees that it will not, except as otherwise provided herein, order or sell athletic shoes bearing two or four parallel double-serrated stripes of contrasting color running diagonally from the outsole forward to the lacing area.

The agreement "shall remain in effect so long as Adidas diligently and aggressively acts to enforce similar restrictions against other retailers in the United States."

In the present action, Adidas contends that Payless is now selling footwear that violates the 1994 Settlement Agreement and infringes its rights in the "three stripe" mark and in the trade dress of its SUPERSTAR model. The allegedly offending models include Payless CROSS-TREKKERS, CITY SNEAKS, and "Parade of Shoes" Lot No. 9828.

All of these models have four stripes on each side. Though none of the stripes is actually double-serrated, Adidas contends that they appear to be so because of the manner in which they are stitched.

PLAINTIFF'S CLAIMS

Plaintiff brings the following ten claims:

1. *Federal Trademark Infringement*: The first claim alleges that defendant's use of "confusingly similar imitations of Plaintiff's THREE STRIPE Mark" is likely to cause consumer confusion by giving the impression that defendant's goods are manufactured or distributed by Adidas.

2. *Federal Unfair Competition as to Three Stripe Mark*: The second claim alleges that defendant's use of "knockoff duplicates or confusingly similar imitations" of Adidas' three stripe mark causes consumer confusion, and that Payless has made "false representations, false descriptions, and false designations" concerning the origin of its goods in violation of 15 U.S.C. § 1125(a).

3. *Federal Unfair Competition as to Superstar Trade Dress*: The third claim alleges that plaintiff's "Superstar" trade dress has acquired secondary meaning, and that Payless' use of "knockoff duplicates" or imitations of its

"Superstar" trade dress creates the false impression that Payless' goods are manufactured or distributed by Adidas.

4. *Federal Dilution as to Three Stripe Mark*: Plaintiff's fourth claim alleges that Adidas has extensively and continuously promoted and used the Three Stripe Mark in the United States and throughout the world, and that Payless is using marks that dilute and are likely to dilute the distinctiveness of that mark.

5. *Federal Dilution as to Superstar Trade Dress*: Plaintiff's fifth claim alleges that Adidas has extensively and continuously promoted and used the Superstar trade dress in the United States and throughout the world, and that Payless is using trade dress that dilutes and is likely to dilute the distinctiveness of that trade dress.

6. *State Trademark Dilution and Injury to Business Reputation*: Plaintiff's sixth claim alleges that Payless' unauthorized use of plaintiff's Three Stripes mark dilutes and is likely to dilute the distinctiveness of that mark in violation of the law of Oregon and 26 other states listed in the complaint.

7. *State Trade Dress Dilution and Injury to Business Reputation as to Superstar Trade Dress*: Plaintiff's seventh claim alleges that Payless' unauthorized use of the Superstar trade dress dilutes and is likely to dilute the distinctiveness of Adidas' Superstar trade dress in violation of the laws of the states listed in the sixth claim.

8. *Common Law Trademark Infringement and Unfair Competition*: Plaintiff's eighth claim alleges that Payless' conduct constitutes common law trademark infringement and unfair competition, and has created a likelihood of consumer confusion.

9. *Unfair and Deceptive Trade Practices*: Plaintiff's ninth claim alleges that Payless "has been and is passing off its goods as those of adidas, causing a likelihood of confusion or of misunderstanding as to the source" of the goods, and that this conduct constitutes unfair and deceptive trade practice in violation of the laws of Oregon and twelve other states listed in this claim.

10. *Breach of Contract*: Plaintiff's tenth claim alleges that Payless breached its agreement, set out in the settlement agreement described above, not to "order or sell athletic shoes bearing two or four parallel double-serrated stripes of contrasting color running diagonally from the outsole forward to the lacing area."

DISCUSSION

A. Motion to Strike

Britt Jorgenson, Brand Concept Manager for Adidas, has submitted a declaration in support of plaintiff's opposition to the motion for summary judgment. In this declaration, Jorgenson describes plaintiff's efforts to promote the Three Stripes mark, and the role of that mark in promotion of the Adidas brands. Jorgenson also describes what she characterizes as the Superstar trade dress, and recounts the resurgence of popularity that the Superstar model has enjoyed during the past few years. She also offers her opinion that the three stripe mark is not ornamental, and that features of the Superstar trade dress do not improve the shoes' performance, but instead serve a "source-identifying" function.

Payless moves to strike substantial portions of the declaration. Payless contends that much of the declaration is irrelevant because the motion for summary judgment

addresses only the parties' agreement settling the litigation filed in 1994, an event occurring before many of the events referenced in the declaration, and a subject that Jorgenson does not address. Payless contends that the only events relevant here are those "that occurred prior to and contemporaneous with the Settlement Agreement entered into between the parties in 1994." Payless also asserts that Jorgenson's use of the phrase "three stripe mark" is vague and ambiguous, irrelevant, confusing and misleading, and not based upon personal knowledge. It argues that Jorgenson's opinions that the majority of plaintiff's representations have featured the three stripe mark, that this mark is one of the most recognizable brands in the world, and that the mark is not functional or ornamental are improper opinion testimony lacking necessary expert foundation. Payless moves on the same grounds to strike Jorgenson's opinions that the three stripe mark is "famous and distinctive," that the Superstar trade dress is "unique," non-functional and not designed to enhance performance, and that the "shell toe" feature is a "source-identifying" feature first developed by Adidas.

Jorgenson's declaration is not particularly significant to the analysis of the motion for summary judgment, because disposition of the motion largely turns on an analysis of the four corners of the settlement agreement. However, though Jorgenson's declaration does not directly address the parties' settlement agreement, the declaration is at least marginally relevant to the pending motion because it helps explain the context of the dispute and the nature of Adidas' claims. Therefore, though its direct relevance to the pending motion is very limited, I will not strike the declaration on relevance grounds.

It appears that, with limited exceptions, Jorgenson's education, training, and experience, and current and former positions with Adidas, have given her an adequate foundation for most of the facts and opinions set out in the declaration. Jorgenson's opinion concerning the lack of functionality of the alleged Superstar trade dress, on the other hand, appears to be an improper legal opinion of an Adidas employee concerning an ultimate legal question. The motion to strike is therefore granted as to that opinion, and is otherwise denied.

B. Motion to Supplement Record

Adidas moves to supplement the record with a letter from Payless' former counsel sent to Adidas' counsel during the settlement negotiations concerning the litigation brought by Adidas in 1994. That letter states, in pertinent part, that under the proposed agreement, Adidas "would retain its full range of remedies for breach of the two and four stripe prohibitions, including the ability to seek an injunction and claim wilful infringement and enhanced damages, and the ability to bring an additional claim against Payless for breach of contract." Adidas contends that this letter confirms its assertion that the settlement agreement merely provided an *additional* breach of contract remedy in case Payless sold infringing shoes, and did not provide a "covenant not to sue" or a "safe harbor" provision.

The letter should not be considered for at least two reasons. First, as a reflection of the position of a party *before* the agreement was finalized, the letter does not necessarily reflect the parties' final agreement. Second, reference to extrinsic evidence of the negotiations is

inappropriate because the parties' settlement agreement appears to be unambiguous. I therefore deny the motion to supplement the record.

C. Motion for Summary Judgment

1. Standards for Evaluating Motions for Summary Judgment

Federal Rule of Civil Procedure 56(c) authorizes summary judgment if no genuine issue exists regarding any material fact and the moving party is entitled to judgment as a matter of law. The moving party must show the absence of an issue of material fact. *Celotex Corp. v. Catrett*, 477 U.S. 317, 325 (1986). The moving party may discharge this burden by showing that there is an absence of evidence to support the nonmoving party's case. *Id.* When the moving party shows the absence of an issue of material fact, the nonmoving party must go beyond the pleadings and show that there is a genuine issue for trial. *Id.* at 324.

The substantive law governing a claim or defense determines whether a fact is material. *T.W. Elec. Serv., Inc. v. Pacific Elec. Contractors Ass'n*, 809 F.2d 626, 630 (9th Cir.1987). Reasonable doubts concerning the existence of a factual issue should be resolved against the moving party. *Id.* at 630-31. The evidence of the nonmoving party is to be believed, and all justifiable inferences are to be drawn in the nonmoving party's favor. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255 (1985). No genuine issue for trial exists, however, where the record as a whole could not lead the trier of fact to find for the nonmoving party. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587 (1986).

2. Discussion

Payless contends that all of plaintiff's present claims are barred by the parties' agreement settling the litigation filed in 1994. Adidas contends that the parties' settlement agreement does not restrict in any manner its right to assert claims based upon the use of stripes on Payless' shoes, and asserts that Payless' shoes violate the parties' agreement because the stripes "appear to be double-serrated."

Payless asserts that the law of Oregon or Kansas governs the parties' agreement, because Payless' principal place of business is Kansas, where Payless signed the agreement, and Adidas' principal place of business is Oregon, where Adidas signed the agreement. Payless also contends that the "relevant terms are entirely straightforward and unambiguous." Though Adidas cites decisions from both Oregon and Kansas, it does not take a position on the choice of law question. Though it agrees that terms of the settlement agreement are unambiguous, it contends that the motion for summary judgment "must fail" under the law of either state.

I agree that the outcome here does not turn on the choice of law, and agree that the terms of the parties' settlement agreement are unambiguous. I disagree, however, with both parties' conclusions about the effect of the settlement agreement on the present litigation.

As Payless correctly notes, agreements to settle legal disputes are contracts whose enforceability "is governed by familiar principles of contract law." *Jeff D. v. Andrus*, 899 F.2d 753, 759 (9th Cir. 1990) (citation omitted). Courts enforce unambiguous contracts "according to their plain, general and common meaning in order to ensure the

intentions of the parties are enforced." *Hall v. JFW, Inc.*, 20 Kan. App. 2d 845, 893 P.2d 837, 840 (1995). "The intent of the parties is determined from the four corners of an unambiguous instrument, harmonizing the language therein if possible." *Id.*

Here, the parties' settlement agreement referred to the action Adidas had filed alleging that Payless infringed Adidas' rights by selling certain footwear bearing stripes. The agreement stated that the parties agreed "to resolve" the dispute concerning the allegations of infringement "without the cost, risk and inconvenience of protracted litigation." The agreement unambiguously imposed ongoing obligations, including Payless' agreement that it "will not" sell shoes bearing "four parallel double-serrated stripes of contrasting color running diagonally from the outsole forward to the lacing area."

As the settlement agreement noted, the parties' dispute concerned Payless' use of stripes, and unambiguously "resolved" that dispute with Payless' agreement that it would not sell shoes bearing the stripes specifically prohibited in the agreement. Given its explicit reference to the underlying trademark dispute and the parties' unambiguous agreement that Payless would not use certain prohibited kinds of stripes, the agreement can only be reasonably interpreted as insulating Payless from any liability premised solely on the use of four stripes so long as Payless did not sell shoes bearing the kind of stripes specifically prohibited under the agreement. Adidas' assertion that it can bring infringement and various unfair competition claims based solely upon stripes that technically conform with the terms of the agreement must fail. If Adidas could prevail on claims alleging that Payless infringes its trademark and engages in unfair trade

practices though it does not technically violate the terms of the agreement, Payless would not have obtained the benefit of its bargain, and contrary to explicit recitals in the agreement, the parties' 1994 dispute concerning stripes would not have been resolved.

The agreement can only be reasonably interpreted as imposing on Payless an ongoing obligation to refrain from selling shoes bearing the stripes prohibited under the agreement, and imposing on Adidas a reciprocal ongoing obligation to refrain from taking legal action against Payless based solely on its use of stripes. Absent these *mutual* ongoing obligations, the parties' recitation that the dispute was being resolved is a nonsensical nullity. The parties' unambiguous agreement cannot be interpreted as imposing ongoing obligations on Payless, but not imposing a reciprocal obligation on Adidas to refrain from asserting infringement and unfair competition claims based solely on Payless' use of stripes that complied with the terms of the settlement agreement.

The portion of the settlement agreement relevant to the pending motion for summary judgment unambiguously required Payless to refrain from selling "athletic shoes bearing two or four parallel double-serrated stripes of contrasting color running diagonally from the outsole forward to the lacing area." The agreement is violated only if all of the proscribed characteristics are present.

The shoes at issue here do not include all of the features prohibited under the parties' agreement, because none of the models of which Adidas complains in this action includes "double serrated" stripes. Instead, all of the edges are unquestionably and undeniably straight-edged. Adidas' assertion that the stripes appear to be

"double-serrated" because of the "placement and prominence of the stitching" cannot alter the clear terms of the settlement agreement. The agreement does not prohibit the use of any particular type of stitching, and does not prohibit the use of stripes that "appear" to be double-serrated. Instead, it unambiguously prohibits only the use of stripes that are actually double serrated, and neither states nor implies that subjective appearance is to be considered in determining whether any particular stripes violate the agreement. If the parties had intended that subjective appearance were to be considered, some mention of this could have been included in the agreement. The court cannot insert such terms into an unambiguous, integrated agreement that by its own terms "constitutes a complete understanding among the parties." Settlement Agreement at ¶ 10.

Adidas likewise cannot prevail on its assertion that Payless violated a covenant of good faith and fair dealing by stitching the stripes in a manner that makes them appear to be "double-serrated" for at least two reasons. First, the straight edges of the stripes simply do not appear to be serrated. Straight is straight. Serrated is serrated. Straight appears to be straight, and serrated appears to be serrated. Second, and more significantly, "the duty of good faith and fair dealing cannot contradict an express contractual term. . . ." *Pacific First Bank v. New Morgan Park Corp.*, 319 Or. 342, 352-53, 876 P.2d 761 (1994). The express terms of the settlement agreement allowed Payless to sell shoes bearing stripes with straight edges, and the edges of the stripes in question are straight.

Though they all involve stripes to some extent, Adidas' claims in the present litigation fall into two

distinct groups. Claims 1,2,4,6,8,9, and 10 are all based exclusively on Adidas' "three stripe" mark, and allege that the four stripes appearing on the shoes at issue here violate Adidas' rights in that mark. Claims 3,5, and 7 allege that the four stripe design, combined with other characteristics of the shoes in question, violate rights that Adidas has in a protected "Superstar" trade dress. Payless is entitled to summary judgment on all claims that are based only on its use of stripes: Payless' use of these stripes was permitted under the terms of the settlement agreement, and that agreement bars Adidas from bringing infringement and other unfair competition claims against Payless that are based solely on the use of stripes that comply with the parties' settlement agreement.

Payless is not entitled to summary judgment on the other claims. These claims, which allege violations of the "Superstar" trade dress, are not based solely upon Payless' use of stripes, but upon use of stripes in combination with other design features. The parties' settlement agreement says nothing about other features of shoes sold by Payless, and says nothing about the use of stripes in combination with other features of any particular models of Adidas shoes that may be subject to trade dress protections. Material issues of fact exist as to Adidas' claims based upon "Superstar" trade dress, and the motion for summary judgment on these claims should be denied.

CONCLUSION

Defendant's motion to strike (# 28) is GRANTED in part and DENIED in part as set out above. Plaintiff's motion for leave to supplement (# 38) is DENIED. Defendant's amended motion for summary judgment (# 24)

should be GRANTED as to plaintiff's 1st, 2nd, 4th, 6th, 8th, 9th, and 10th claims, and should be DENIED as to plaintiff's 3rd, 5th, and 7th claims.

SCHEDULING ORDER

The above Findings and Recommendation are referred to a United States District Judge for review. Objections, if any, are due October 25, 2002. If no objections are filed, review of the Findings and Recommendation will go under advisement on that date.

A party may respond to another party's objections within 10 days after service of a copy of the objections. If objections are filed, review of the Findings and Recommendation will go under advisement upon receipt of the response, or the latest date for filing a response.

DATED this 8th day of October, 2002.

/s/ John Jelderks
John Jelderks
U.S. Magistrate Judge

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

ADIDAS AMERICA, INC.; et al., Plaintiffs – Appellants, v. PAYLESS SHOESOURCES, INC., Defendant – Appellee.	No. 04-35553 D.C. No. CV-01-01655-JAR District of Oregon, Portland ORDER (Filed Feb. 28, 2006)

Before: FERGUSON, KLEINFELD, and GRABER, Circuit Judges.

Judges Ferguson, Kleinfeld, and Graber voted to deny the petition for panel rehearing. Judges Kleinfeld and Graber voted to deny the petition for rehearing en banc and Judge Ferguson so recommends.

The full court has been advised of the petition for rehearing en banc and no judge has requested a vote on whether to rehear the matter en banc. Fed. R. App. P. 35.

The petition for panel rehearing and petition for rehearing en banc are denied.

Federal Rule of Civil Procedure 54(b) provides in full:

> **Judgment Upon Multiple Claims or Involving Multiple Parties.** When more than one claim for relief is presented in an action, whether as a claim, counterclaim, cross-claim, or third-party claim, or when multiple parties are involved, the court may direct the entry of a final judgment as to one or more but fewer than all of the claims or parties only upon an express determination that there is no just reason for delay and upon an express direction for the entry of judgment. In the absence of such determination and direction, any order or other form of decision, however designated, which adjudicates fewer than all the claims or the rights and liabilities of fewer than all the parties shall not terminate the action as to any of the claims or parties, and the order or other form of decision is subject to revision at any time before the entry of judgment adjudicating all the claims and the rights and liabilities of all the parties.

28 U.S.C. § 1291 provides in relevant part:

> The courts of appeals . . . shall have jurisdiction of appeals from all final decisions of the district courts of the United States, . . . except where a direct review may be had in the Supreme Court.

28 U.S.C. § 1292(b) provides in pertinent part:

> When a district court, in making in a civil action an order not otherwise appealable under this section, shall be of the opinion that such order involves a controlling question of law as to which there is substantial ground for difference of opinion and that an immediate appeal from the order may materially advance the ultimate

termination of the litigation, he shall so state in writing in such order. The Court of Appeals which would have jurisdiction of an appeal of such action may thereupon, in its discretion, permit an appeal to be taken from such order, if application is made to it within ten days after the entry of such order. . . .

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UNITED STATES DISTRICT COURT

DISTRICT OF OREGON

ADIDAS AMERICA, INC. and **ADIDAS SALOMON AG,** Plaintiffs, v. **PAYLESS SHOESOURCE, INC.,** Defendant.	NO. CV01-1655 JE **AMENDED COMPLAINT** (Trademark & Trade Dress Infringement, Trademark & Trade Dress Dilution, Unfair Competition, Deceptive Trade Practices, and Breach of Contract) **DEMAND FOR JURY TRIAL**

Plaintiffs adidas America, Inc. and adidas-Salomon AG (collectively, "adidas" or "Plaintiffs") state the following for their complaint against Payless ShoeSource, Inc. ("Payless" or "Defendant"):

1. This is an action at law and in equity for trademark infringement and dilution, injury to business reputation, unfair competition and deceptive trade practices, arising under the Trademark Act of 1946, 15 U.S.C. §§ 1051 *et seq.* (1994) ("Lanham Act"); the antidilution laws of the several states, including the Oregon antidilution statute, O.R.S. § 647.107 (1988); the fair business practices and unfair and deceptive trade practices acts of the several states, including the Oregon Unlawful Trade Practices Act, O.R.S. §§ 646.605 to 646.656 (1997); and the common law.

2. Defendant is offering for sale and selling footwear that bears confusingly similar imitations of Plaintiffs' registered THREE STRIPE Mark and SUPERSTAR Trade Dress. Defendant's footwear is not manufactured by adidas, nor is Defendant connected or affiliated with, or authorized by, adidas in any way. Defendant's merchandise is likely to cause confusion and to deceive consumers and the public regarding its source, and dilutes and tarnishes the distinctive quality of adidas's mark and trade dress.

3. Defendant's sale of confusingly similar four-stripe footwear also constitutes breach of an agreement reached between the parties in 1994.

JURISDICTION AND VENUE

4. This Court has subject matter jurisdiction under section 39 of the Lanham Act, 15 U.S.C. § 1121, and under 28 U.S.C. §§ 1331 and 1338. This Court has jurisdiction over Plaintiffs' related state and common-law claims pursuant to 28 U.S.C. §§ 1338 and 1367. In addition, this Court has jurisdiction pursuant to 28 U.S.C. § 1332(a) because the parties' citizenship is diverse and the amount in controversy exceeds $75,000, exclusive of interest and costs.

5. This Court has personal jurisdiction over Defendant because, on information and belief, Defendant has distributed or sold infringing merchandise within this State, has engaged in acts or omissions within this State causing injury, has engaged in acts or omissions outside of this State causing injury within this State, has manufactured or distributed products used or consumed within this State in the ordinary course of trade, or has otherwise made or established contacts with this State sufficient to permit the exercise of personal jurisdiction. This District is a proper venue pursuant to 28 U.S.C. § 1391(b)(2) because a substantial part of the events or omissions giving rise to Plaintiffs' claims occurred in this District.

THE PARTIES

6. Plaintiff adidas-Salomon AG is a joint stock company organized and existing under the laws of the Federal Republic of Germany, having its office and principal place of business at Postfach 1120, D-91072 Herzogenaurach, Federal Republic of Germany.

7. Plaintiff adidas America, Inc., is a corporation organized and existing under the laws of the State of Delaware, having its principal place of business at 9605 S.W. Nimbus Avenue, Beaverton, Oregon 97008. adidas America, Inc., is wholly-owned by adidas-Salomon AG and its affiliates, and within this country adidas America is one of two licensed distributors of ADIDAS brand merchandise, including goods bearing the distinctive THREE STRIPE trademark. Plaintiffs adidas-Salomon AG and adidas America, Inc., and any predecessors or related entities, are collectively referred to as "adidas."

8. On information and belief, Defendant Payless ShoeSource, Inc. is a Missouri corporation with a principal place of business at 3231 East Sixth Street, Topeka, Kansas 66607.

FACTS COMMON TO ALL CLAIMS FOR RELIEF

9. adidas is currently, and for years has been, one of the world's leading manufacturers of athletic footwear, sportswear, and sporting equipment. Over forty years ago, adidas first placed three parallel bands on its athletic shoes, and the THREE STRIPE Mark came to signify the quality and reputation of adidas footwear to the sporting world early in the company's history.

10. At least as early as 1952, adidas began using the THREE STRIPE Mark on athletic footwear sold in the United States and worldwide. Pages from adidas catalogs featuring footwear bearing the THREE STRIPE Mark are attached as Exhibit 1.

11. adidas-Salomon AG is the owner of a federal trademark registration, Reg. No. 1,815,956, issued by the

United States Patent and Trademark Office on January 11, 1994, for the THREE STRIPE Mark, as depicted below, for "athletic footwear."

Affidavits have been filed pursuant to Sections 8 and 15 of the Lanham Act, 15 U.S.C. §§ 1058 and 1065, and this registration is incontestable. A copy of the Certificate of Registration for this mark is attached as Exhibit 2.

12. adidas-Salomon AG is the owner of a federal trademark registration, Reg. No. 1,833,868, issued by the United States Patent and Trademark Office on May 3, 1994, for the THREE STRIPE Mark, as depicted below, covering "athletic footwear."

Affidavits have been filed pursuant to Sections 8 and 15 of the Lanham Act, 15 U.S.C. §§ 1058 and 1065, and this

registration is incontestable. A copy of the Certificate of Registration for this mark is attached as Exhibit 3.

13. adidas also owns numerous additional trademark registrations for the THREE STRIPE Mark covering footwear and various items of apparel including U.S. Reg. Nos. 870,136, 961,353, 2,016,963, and 2,058,619. A copy of the Certificate of Registration for each of these marks is attached as Exhibit 4.

14. Plaintiffs' THREE STRIPE Mark is well-known and famous. Plaintiffs have used the THREE STRIPE Mark in connection with their frequent sponsorship of sports tournaments and organizations, as well as professional athletes. For example, adidas has long-term relationships with the New York Yankees, the San Francisco 49ers, the Tampa Bay Buccaneers, the New England Patriots, the University of California at Los Angeles, the University of Nebraska and the University of Tennessee. Among many others, tennis champion Steffi Graf, American soccer star Eddie Pope, and N.B.A. star Kobe Bryant all are sponsored by adidas. adidas also was a co-sponsor of the recent women's World Cup soccer tournament. Prominent use of the THREE STRIPE Mark in connection with these sponsorship activities has further enhanced the mark's recognition and fame.

15. The THREE STRIPE mark is non-functional, and the public well recognizes and understands that the THREE STRIPE Mark distinguishes and identifies adidas merchandise. Indeed, unsolicited media coverage has referred to "the classic Adidas THREE STRIPE motif." (*Tennis*, July 1997, at 20). adidas also owns federal registrations for verbal trademarks using the term "three stripe" including THE BRAND WITH THE THREE STRIPES, Reg. No. 1,674,229, for sport

and leisure wear. A copy of the Certificate of Registration for this mark is attached as Exhibit 5.

16. For decades, adidas has extensively and continuously used and promoted the THREE STRIPE Mark in connection with athletic footwear and sportswear. In recent years, annual sales of products bearing the THREE STRIPE Mark have totaled in the billions of dollars globally and in the hundreds of millions of dollars within the United States. The THREE STRIPE Mark has achieved international fame and tremendous public recognition.

17. The SUPERSTAR model is a famous shoe sold under the THREE STRIPE Mark, featuring a distinctive appearance, including a unique and nonfunctional combination of three stripes on the side of the shoe parallel to equidistant small holes, a rubber "shell toe," a particularly flat sole and a colored portion on the outer back heel section, that identifies to consumers that the origin of the product lies with adidas (the "SUPERSTAR Trade Dress"), as depicted below:

18. Since introducing its THREE STRIPE trademark and SUPERSTAR Trade Dress, adidas has spent hundreds of thousands of dollars promoting the mark, the product, and its appearance. As a result of adidas's continuous and exclusive use of the THREE STRIPE trademark and the SUPERSTAR Trade Dress in connection with its products, the mark and trade dress enjoy wide public acceptance and association with adidas, and have come to be recognized widely and favorably by the public as indicators of the origin of adidas's goods.

19. The fame and popularity of the SUPERSTAR Trade Dress, and particularly the "shell toe" feature, is evident from popular press reports, including the following:

- "Perfect to chill to, dust off the Adidas shell toes, post up on the stoop, and blare it out the window." Heather Kuldell, "Beastie Boys DJ Scratches Your Eyes Out," *The Georgia State University Signal,* Sept. 27, 2001.

- "New York's biggest trendsetters are going public with their locker room gear this summer. . . . Annemie Dreves – a.k.a. 'Number 56' – pairs this football-style jersey with well-worn jeans slit at the ankles and shell-toe Adidas." Danielle Levitt & Libby Callaway, "Gym Dandies," *The New York Post,* Sept. 2, 2001.

- "One such shoe is the Adidas Superstar, with its now famous rubber shell toe. Introduced in 1969 as a basketball shoe, it was worn by three-quarters of National Basketball Association players by the mid '70s but fell in popularity in the '80s, when chunky Nikes and Reeboks dominated. Championed by rappers Run DMC, who wrote My Adidas in 1986, and later the Beastie

Boys, they became a cult fashion item, prompting Adidas to re-release old models." Dominique Jackson, "Sneaky Feelings," *The Australian,* Aug. 17, 2001.

- "This season she's wearing fraying and faded Earl Jeans, Adidas shell toes and an asymmetric top." *PR Week,* July 13, 2001, p. 11.

- "dido . . . In her urban chic attire, she is an English rose with a thorny edge . . . . For casual days, she gravitates toward Adidas shell-toe sneakers, T-shirts with iron-on decals, and Katayone Adeli or Diesel pants." Heidi Sherman, "Amped + Vamped: Sample the Style High Notes of Destiny's Child, Sheryl Croe [sic], Macy Gray and More," *In Style,* July 2001, at 186.

- "But when Michele Corbett stopped in during her lunch hour to buy a pair of popular Adidas called Superstars (some call them shell toes), she was told that particular pair was not on sale." Bruce Mohl, "Old-Fashioned Bill-Paying Gets New Wrinkle," *The Boston Globe,* May 13, 2001, at C3.

- "'It's hard for me not to be passionate, because passion is something that's in me,' says the 22-year-old star, decked out in diamonds and a white linen Enyce suit with Adidas shell-toe sneakers." Farrah Weinstein, "Style and Substance: Tyrese Gibson," *The New York Post,* July 1, 2001, at 52.

- "He expects the trefoil group to appeal to women as it already does to high school girls who favor the brand's shell-toe shoes and three-stripe jackets." Rosemary Feitelberg, "Adidas Maps Three-Tier Apparel Plan," *Women's Wear Daily,* Oct. 12, 2000, at 11.

- "Fusing rock with hip-hop has been the subject of experiments before many nu-metal groups could fit into a pair of shell-toe Adidas." Chris Macias, "Kings of Rock N' Rap," *Sacramento Bee,* Oct. 17, 1999, at E19.

20. As a result of adidas's extensive use and promotion of its THREE STRIPE trademark and its SUPERSTAR Trade Dress, adidas has built up and now owns valuable goodwill that is symbolized by the mark and trade dress. The purchasing public has come to associate the THREE STRIPE trademark and SUPERSTAR Trade Dress with adidas. adidas's mark and trade dress are distinctive and non-functional and have achieved significant secondary meaning.

THE AGREEMENT BETWEEN THE PARTIES

21. In 1994, Payless sold footwear bearing three and four parallel stripes, and which infringed adidas's THREE STRIPE mark. As a result, adidas filed an action for trademark infringement and unfair competition in the United States District Court for the Eastern District of New York, Civil Action No. 94-civ-3424 (the "New York Action").

22. adidas and Payless resolved the New York Action by entering into a settlement agreement (the "Agreement"), in which Payless acknowledged adidas's ownership of the THREE STRIPE mark.

23 The Agreement states, in part, that: "Payless further agrees that it will not, except as otherwise provided herein, order or sell athletic shoes bearing two or four parallel double-serrated stripes of contrasting color

running diagonally from the outsole forward to the lacing area."

24. The Agreement further states that in the event of a willful breach of the provision referenced above in Paragraph 23, adidas "will be entitled to recover its proveable [sic] damages and its reasonable costs and attorneys' fees."

DEFENDANT'S UNLAWFUL ACTIVITIES

25. On information and belief, Defendant Payless is a retailer that is distributing, offering for sale and selling goods in interstate commerce that bear a confusingly similar imitation of Plaintiffs' THREE STRIPE Mark and SUPERSTAR Trade Dress, including the footwear depicted below:

26. The goods distributed, offered for sale and sold by Defendant are not manufactured by adidas, nor is Defendant associated or connected with adidas, or licensed,

authorized, sponsored, endorsed or approved by adidas in any way.

27. Plaintiffs used the THREE STRIPE Mark and SUPERSTAR Trade Dress extensively and continuously before Defendant began using confusingly similar imitations of adidas's footwear.

28. The goods sold by Defendant are similar to and compete with goods sold by Plaintiffs, and are sold through overlapping channels of trade.

29. Defendant's use of confusingly similar imitations of Plaintiffs' THREE STRIPE Mark and SUPERSTAR Trade Dress is likely to deceive, confuse and mislead prospective purchasers and purchasers into believing that footwear sold by Defendant is manufactured by, authorized by or in some manner associated with Plaintiffs, which it is not. The likelihood of confusion, mistake and deception engendered by Defendant's misappropriation of Plaintiffs' mark and trade dress is causing irreparable harm to the goodwill symbolized by the THREE STRIPE Mark and SUPERSTAR Trade Dress and the reputation for quality that they embody.

30. Defendant's activities are likely to cause confusion before, during, and after the time of purchase because purchasers, prospective purchasers and others viewing Defendant's footwear at the point of sale or on a wearer are likely – due to Defendant's use of confusingly similar imitations of the THREE STRIPE Mark and SUPERSTAR Trade Dress – to mistakenly attribute the product to adidas. This is particularly damaging with respect to those persons who perceive a defect or lack of quality in Defendant's products. By causing such a likelihood of confusion, mistake and deception, Defendant is inflicting irreparable

harm to the goodwill symbolized by the THREE STRIPE Mark and SUPERSTAR Trade Dress, and the reputation for quality that they embody.

31. Upon information and belief, Defendant continues to use confusingly similar imitations of adidas's THREE STRIPE trademark and SUPERSTAR Trade Dress in connection with the sale of products that are directly competitive to those offered by adidas. Defendant began selling these imitations well after adidas established protectable rights to its THREE STRIPE trademark and SUPERSTAR Trade Dress.

32. On information and belief, Defendant knowingly, willfully, intentionally and maliciously adopted and used confusingly similar imitations of Plaintiffs' THREE STRIPE Mark and SUPERSTAR Trade Dress.

33. On information and belief, Defendant knowingly, willfully, and intentionally breached the Agreement by selling footwear bearing four parallel stripes.

FIRST CLAIM FOR RELIEF
(Federal Trademark Infringement)

34. Plaintiffs repeat and incorporate by reference the allegations in paragraphs 1-33.

35. Defendant's use of confusingly similar imitations of Plaintiffs' THREE STRIPE Mark is likely to cause confusion, deception, and mistake by creating the false and misleading impression that Defendant's goods are manufactured or distributed by Plaintiffs, or associated or connected with Plaintiffs, or have the sponsorship, endorsement, or approval of Plaintiffs.

36. Defendant has used marks confusingly similar to Plaintiffs' federally registered marks in violation of 15 U.S.C. § 1114, and Defendant's activities have caused and, unless enjoined by this Court, will continue to cause a likelihood of confusion and deception of members of the trade and public and, additionally, injury to Plaintiffs' goodwill and reputation as symbolized by the federally registered THREE STRIPE Mark, for which Plaintiffs have no adequate remedy at law.

37. Defendant's actions demonstrate an intentional, willful, and malicious intent to trade on the goodwill associated with Plaintiffs' federally registered THREE STRIPE Mark to Plaintiffs' great and irreparable injury.

38. Defendant has caused and is likely to continue causing substantial injury to the public and to Plaintiffs, and Plaintiffs are entitled to injunctive relief and to recover Defendant's profits, actual damages, enhanced profits and damages, costs, and reasonable attorneys' fees under 15 U.S.C. §§ 1114, 1116 and 1117.

SECOND CLAIM FOR RELIEF
(Federal Unfair Competition as to Three Stripe Mark)

39. Plaintiffs repeat and incorporate by reference the allegations in paragraphs 1-38.

40. Defendant's use of knockoff duplicates or confusingly similar imitations of Plaintiffs' THREE STRIPE Mark has caused and is likely to cause confusion, deception, and mistake by creating the false and misleading impression that Defendant's goods are manufactured or distributed by Plaintiffs, or affiliated, connected, or associated with

Plaintiffs or have the sponsorship, endorsement, or approval of Plaintiffs.

41. Defendant has made false representations, false descriptions, and false designations of origin of its goods in violation of 15 U.S.C. § 1125(a), and Defendant's activities have caused and, unless enjoined by this Court, will continue to cause a likelihood of confusion and deception of members of the trade and public and, additionally, injury to Plaintiffs' goodwill and reputation as symbolized by the THREE STRIPE Mark, for which Plaintiffs have no adequate remedy at law.

42. Defendant's actions demonstrate an intentional, willful, and malicious intent to trade on the goodwill associated with Plaintiffs' THREE STRIPE Mark to the great and irreparable injury of Plaintiffs.

43. Defendant's conduct has caused, and is likely to continue causing, substantial injury to the public and to Plaintiffs, and Plaintiffs are entitled to injunctive relief and to recover Defendant's profits, actual damages, enhanced profits and damages, costs, and reasonable attorneys' fees pursuant to 15 U.S.C. §§ 1125(a), 1116 and 1117.

THIRD CLAIM FOR RELIEF
(Federal Unfair Competition as to Superstar Trade Dress)

44. Plaintiffs repeat and incorporate by reference the allegations in paragraphs 1-43.

45. Plaintiffs' SUPERSTAR Trade Dress has acquired secondary meaning.

46. Defendant's use of knockoff duplicates or confusingly similar imitations of Plaintiffs' SUPERSTAR Trade Dress has caused and is likely to cause confusion, deception, and mistake by creating the false and misleading impression that Defendant's goods are manufactured or distributed by Plaintiffs, or affiliated, connected, or associated with Plaintiffs or have the sponsorship, endorsement, or approval of Plaintiffs.

47. Defendant has made false representations, false descriptions, and false designations of origin of its goods in violation of 15 U.S.C. § 1125(a), and Defendant's activities have caused and, unless enjoined by this Court, will continue to cause a likelihood of confusion and deception of members of the trade and public and, additionally, injury to Plaintiffs' goodwill and reputation as symbolized by the SUPERSTAR Trade Dress, for which Plaintiffs have no adequate remedy at law.

48. Defendant's actions demonstrate an intentional, willful, and malicious intent to trade on the goodwill associated with Plaintiffs' SUPERSTAR Trade Dress to the great and irreparable injury of Plaintiffs.

49. Defendant's conduct has caused, and is likely to continue causing, substantial injury to the public and to Plaintiffs, and Plaintiffs are entitled to injunctive relief and to recover Defendant's profits, actual damages, enhanced profits and damages, costs, and reasonable attorneys' fees pursuant to 15 U.S.C. §§ 1125(a), 1116 and 1117.

FOURTH CLAIM FOR RELIEF
(Federal Dilution as to Three Stripe Mark)

50. Plaintiffs repeat and incorporate by reference the allegations in paragraphs 1-49.

51. Plaintiffs have extensively and continuously promoted and used the registered THREE STRIPE Mark both in the United States and throughout the world, and the mark has thereby become a famous and well-known symbol of adidas's goods and services.

52. Defendant is making commercial use in commerce of marks that dilute and are likely to dilute the distinctiveness of Plaintiffs' THREE STRIPE Mark by eroding the public's exclusive identification of this famous mark with Plaintiffs, tarnishing and degrading the positive associations and prestigious connotations of the mark, and otherwise lessening the capacity of the mark to identify and distinguish goods and services.

53. Defendant's actions demonstrate an intentional, willful, and malicious intent to trade on the goodwill associated with Plaintiffs' THREE STRIPE Mark or to cause dilution of the THREE STRIPE Mark, to the great and irreparable injury of Plaintiffs.

54. Defendant has caused and will continue to cause irreparable injury to Plaintiffs' goodwill and business reputation, and dilution of the distinctiveness and value of Plaintiffs' famous and distinctive THREE STRIPE Mark in violation of 15 U.S.C. § 1125(c), and Plaintiffs therefore are entitled to injunctive relief and to Defendant's profits, actual damages, enhanced profits and damages, costs, and reasonable attorneys' fees pursuant to 15 U.S.C. §§ 1125(c), 1116 and 1117.

FIFTH CLAIM FOR RELIEF
(Federal Dilution as to Superstar Trade Dress)

55. Plaintiffs repeat and incorporate by reference the allegations in paragraphs 1-54.

56. Plaintiffs have extensively and continuously promoted and used the SUPERSTAR Trade Dress both in the United States and throughout the world, and the SUPERSTAR Trade Dress has thereby become a famous and well-known indicator of the origin [sic] adidas's goods and services.

57. Defendant is making commercial use in commerce of trade dress that dilutes and is likely to dilute the distinctiveness of Plaintiffs' SUPERSTAR Trade Dress by eroding the public's exclusive identification of this famous trade dress with Plaintiffs, tarnishing and degrading the positive associations and prestigious connotations of the trade dress, and otherwise lessening the capacity of the trade dress to identify and distinguish goods and services.

58. Defendant's actions demonstrate an intentional, willful, and malicious intent to trade on the goodwill associated with Plaintiffs' SUPERSTAR Trade Dress or to cause dilution of the SUPERSTAR Trade Dress, to the great and irreparable injury of Plaintiffs.

59. Defendant has caused and will continue to cause irreparable injury to Plaintiffs' goodwill and business reputation, and dilution of the distinctiveness and value of Plaintiffs' famous and distinctive SUPERSTAR Trade Dress in violation of 15 U.S.C. § 1125(c), and Plaintiffs therefore are entitled to injunctive relief and to Defendant's profits, actual damages, enhanced profits and

damages, costs, and reasonable attorneys' fees pursuant to 15 U.S.C. §§ 1125(c), 1116 and 1117.

SIXTH CLAIM FOR RELIEF
(State Trademark Dilution and Injury to Business Reputation as to Three Stripe Mark)

60. Plaintiffs repeat and incorporate by reference the allegations contained in paragraphs 1-59.

61. Plaintiffs have extensively and continuously promoted and used the registered THREE STRIPE Mark both in the United States and throughout the world, and the mark has become a distinctive, famous and well-known symbol of adidas's goods and services.

62. Defendant's unauthorized use of Plaintiffs' registered THREE STRIPE Mark dilutes and is likely to dilute the distinctiveness of Plaintiffs' mark by eroding the public's exclusive identification of this famous mark with Plaintiffs, and tarnishing and degrading the positive associations and prestigious connotations of the mark.

63. Defendant is causing and will continue to cause irreparable injury to Plaintiffs' goodwill and business reputation, and dilution of the distinctiveness and value of Plaintiffs' famous and distinctive THREE STRIPE Mark in violation of the Oregon antidilution act, O.R.S. § 647.107 (1988), as well as the antidilution laws of the several states, including Alabama, Ala. Code § 8-12-17 (1993); Arkansas, Ark. Code Ann. § 4-71-113 (Michie 1996); California, Cal. Bus. & Prof. Code § 14330 (West 1987 & Supp. 1998); Connecticut, Conn. Gen. Stat. Ann. § 35-11i(c) (West 1997); Delaware, Del. Code Ann. tit. 6, § 3313

(1993); Florida, Fla. Stat. Ann. § 495.151 (West 1997); Georgia, Ga. Code Ann. § 10-1-451 (1994); Idaho, Idaho Code § 48-512 (1997); Illinois, 765 Ill. Comp. Stat. Ann. 1036/65 (West 1998); Iowa, Iowa Code Ann. § 548.113 (West 1997); Louisiana, La. Rev. Stat. Ann. § 51:223.1 (West 1987); Maine, Me. Rev. Stat. Ann. tit. 10, § 1530 (West 1996); Massachusetts, Mass. Gen. L. ch. 110B, § 12 (West Supp. 1990); Minnesota, Minn. Stat. Ann. § 325D.165 (1995); Mississippi, Miss. Code Ann. § 75-25-25 (Supp. 1997); Missouri, Mo. Rev. Stat. § 417.061(1) (1990 & Supp. 1998); Montana, Mont. Code Ann. § 30-13-334 (1995); Nebraska, Neb. Rev. Stat. § 87-122 (1995); New Hampshire, N.H. Rev. Stat. Ann. § 350-A:12 (1995); New Mexico, N.M. Stat. Ann. § 57-3B-15 (Supp. 1997); New York, N.Y. Gen. Bus. Law § 360-1 (McKinney 1996); Pennsylvania, 54 Pa. Cons. Stat. Ann. § 1124 (West 1996); Rhode Island, R.I. Gen. Laws. § 6-2-12 (1992); Tennessee, Tenn. Code Ann. § 47-25-512 (1995); Texas, Tex. Bus. & Com. Code Ann. § 16.29 (West Supp. 1998); Washington, Wash. Rev. Code Ann. § 19.77.160 (West Supp. 1997); West Virginia, W. Va. Code § 47-2-13 (1996); and Wyoming, Wyo. Stat. Ann. § 40-1-115 (Michie 1997). Plaintiffs therefore are entitled to injunctive relief, damages and costs, as well as, if appropriate, enhanced damages and reasonable attorneys' fees.

SEVENTH CLAIM FOR RELIEF
(State Trade Dress Dilution and Injury to Business Reputation as to Superstar Trade Dress)

64. Plaintiffs repeat and incorporate by reference the allegations contained in paragraphs 1-63.

65. Plaintiffs have extensively and continuously promoted and used the SUPERSTAR Trade Dress in the

United States and throughout the world, and the trade dress has become a distinctive, famous and well-known symbol of adidas's goods and services.

66. Defendant's unauthorized use of Plaintiffs' SUPERSTAR Trade Dress dilutes and is likely to dilute the distinctiveness of Plaintiffs' trade dress by eroding the public's exclusive identification of this famous trade dress with Plaintiffs, and tarnishing and degrading the positive associations and prestigious connotations of the trade dress.

67. Defendant is causing and will continue to cause irreparable injury to Plaintiffs' goodwill and business reputation, and dilution of the distinctiveness and value of Plaintiffs' famous and distinctive SUPERSTAR Trade Dress in violation of the Oregon antidilution act, O.R.S. § 647.107 (1988), as well as the antidilution laws of the several states, including Alabama, Ala. Code § 8-12-17 (1993); Arkansas, Ark. Code Ann. § 4-71-113 (Michie 1996); California, Cal. Bus. & Prof. Code § 14330 (West 1987 & Supp. 1998); Connecticut, Conn. Gen. Stat. Ann. § 35-11i(c) (West 1997); Delaware, Del. Code Ann. tit. 6, § 3313 (1993); Florida, Fla. Stat. Ann. § 495.151 (West 1997); Georgia, Ga. Code Ann. § 10-1-451 (1994); Idaho, Idaho Code § 48-512 (1997); Illinois, 765 Ill. Comp. Stat. Ann. 1036/65 (West 1998); Iowa, Iowa Code Ann. § 548.113 (West 1997); Louisiana, La. Rev. Stat. Ann. § 51:223.1 (West 1987); Maine, Me. Rev. Stat. Ann. tit. 10, § 1530 (West 1996); Massachusetts, Mass. Gen. L. ch. 110B, § 12 (West Supp. 1990); Minnesota, Minn. Stat. Ann. § 325D.165 (1995); Mississippi, Miss. Code Ann. § 75-25-25 (Supp. 1997); Missouri, Mo. Rev. Stat. § 417.061(1) (1990 & Supp. 1998); Montana, Mont. Code Ann. § 30-13-334 (1995); Nebraska, Neb. Rev. Stat. § 87-122 (1995); New

Hampshire, N.H. Rev. Stat. Ann. § 350-A:12 (1995); New Mexico, N.M. Stat. Ann. § 57-3B-15 (Supp. 1997); New York, N.Y. Gen. Bus. Law § 360-1 (McKinney 1996); Pennsylvania, 54 Pa. Cons. Stat. Ann. § 1124 (West 1996); Rhode Island, R.I. Gen. Laws. § 6-2-12 (1992); Tennessee, Tenn. Code Ann. § 47-25-512 (1995); Texas, Tex. Bus. & Com. Code Ann. § 16.29 (West Supp. 1998); Washington, Wash. Rev. Code Ann. § 19.77.160 (West Supp. 1997); West Virginia, W. Va. Code § 47-2-13 (1996); and Wyoming, Wyo. Stat. Ann. § 40-1-115 (Michie 1997). Plaintiffs therefore are entitled to injunctive relief, damages and costs, as well as, if appropriate, enhanced damages and reasonable attorneys' fees.

EIGHTH CLAIM FOR RELIEF
(Common Law Trademark Infringement and Unfair Competition)

68. Plaintiffs repeat and incorporate by reference the allegations in paragraphs 1-67.

69. Defendant's acts constitute common law trademark infringement and unfair competition, and have created and will continue to create a likelihood of confusion to the irreparable injury of Plaintiffs unless restrained by this Court. Plaintiffs have no adequate remedy at law for this injury.

70. On information and belief, Defendant acted with full knowledge of Plaintiffs' use of, and statutory and common law rights to, the THREE STRIPE Mark and without regard to the likelihood of confusion of the public created by Defendant's activities.

71. Defendant's actions demonstrate an intentional, willful, and malicious intent to trade on the goodwill associated with Plaintiffs' THREE STRIPE Mark to the great and irreparable injury of Plaintiffs.

72. As a result of Defendant's acts, Plaintiffs have been damaged in an amount not as yet determined or ascertainable. At a minimum, however, Plaintiffs are entitled to injunctive relief, to an accounting of Defendant's profits, to damages, and to costs. In light of the deliberately fraudulent and malicious use of confusingly similar imitations of Plaintiffs' THREE STRIPE Mark, and the need to deter Defendant from similar conduct, Plaintiffs additionally are entitled to punitive damages.

NINTH CLAIM FOR RELIEF
(Unfair and Deceptive Trade Practices)

73. Plaintiffs repeat and incorporate by reference the allegations in paragraphs 1-72.

74. Defendant has been and is passing off its goods as those of adidas, causing a likelihood of confusion or of misunderstanding as to the source, sponsorship, or approval of Defendant's goods, causing a likelihood of confusion as to Defendant's affiliation, connection, or association with another, and otherwise damaging the public. Defendant's conduct constitutes unfair and deceptive acts or practices in the course of a business, trade or commerce in violation of Oregon's Unlawful Trade Practices Act, O.R.S. §§ 646.605 to 646.656 (1997), and the unfair and deceptive trade practices statutes of other states, including Colorado, Colo. Rev. Stat. Ann. §§ 6-1-101 to 6-1-115 (West 1996 and Supp. 1998); Delaware, Del. Code Ann. tit. 6, §§ 2531 to 2536 (1993 & Supp. 1998);

Georgia, Ga. Code Ann. §§ 10-1-370 to 10-1-375 (1994); Hawaii, Haw. Rev. Stat. §§ 481A-1 to 481A-5 (1993); Illinois, 815 Ill. Comp. Stat. Ann. 510/1 to 510/7 (1993); Maine, Me. Rev. Stat. Ann. tit. 10, §§ 1211 to 1216 (West 1996); Minnesota, Minn. Stat. Ann. § 325D.43 to .48 (West 1995); Nebraska, Neb. Rev. Stat. §§ 87-301 to 87-306 (1995); New Mexico, N.M. Stat. Ann. §§ 57-12-1 to 57-12-22 (Michie 1995); New York, N.Y. Gen. Bus. L. § 349 (McKinney 1988); Ohio, Ohio Rev. Code Ann. §§ 4165.01 to 4165.04 (West 1995); and Oklahoma, Okla. Stat. Ann. tit. 78, §§ 51 to 55 (West 1995 & Supp. 1998).

75. Defendant's unauthorized use of confusingly similar imitations of Plaintiffs' THREE STRIPE Mark has caused and is likely to cause substantial injury to the public and to Plaintiffs, and Plaintiffs are entitled to injunctive relief and to recover damages, punitive damages, costs and reasonable attorneys' fees.

TENTH CLAIM FOR RELIEF
(Breach of Contract)

76. Plaintiffs repeat and incorporate by reference the allegations in paragraphs 1-75.

77. Plaintiffs and Defendant are parties to the Agreement, which is valid and binding and was supported by adequate consideration.

78. Defendant's activities described herein constitute a willful and material breach of the Agreement. In particular, by ordering or selling footwear that bears a confusingly similar imitation of adidas's Three Stripe Mark and Superstar Trade Dress as described herein, Defendant has willfully and materially breached the provision of the

Agreement stating that "Payless . . . agrees that it will not . . . order or sell athletic shoes bearing two or four parallel double-serrated stripes of contrasting color running diagonally from the outsole forward to the lacing area."

79. As a result of Defendant's breach of the Agreement, Plaintiffs have suffered and will continue to suffer injury.

80. Plaintiffs are entitled to damages resulting from Defendant's breach of the Agreement, including reasonable costs and attorneys' fees.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray that:

1. Defendant and all its agents, officers, employees, representatives, successors, assigns, attorneys, and all other persons acting for, with, by, through, or under authority from Defendant, or in concert or participation with Defendant, and each of them, be enjoined permanently, from:

a. using the THREE STRIPE Mark, SUPERSTAR Trade Dress, or any other copy, reproduction, or colorable imitation or simulation of Plaintiffs' THREE STRIPE Mark or SUPERSTAR Trade Dress on or in connection with Defendant's goods or services;

b. using any trademark, service mark, name, logo, design or source designation of any kind on or in connection with Defendant's goods or services that is a copy, reproduction, colorable imitation, or simulation of, or confusingly similar to, or in any way similar to the trademarks, service marks, names, or logos of Plaintiffs;

c. using any trademark, service mark, name, logo, design or source designation of any kind on or in connection with Defendant's goods or services that is likely to cause confusion, mistake, deception, or public misunderstanding that such goods or services are produced or provided by Plaintiffs, or are sponsored or authorized by or in any way connected or related to Plaintiffs;

d. using any trademark, service mark, name, logo, design or source designation of any kind on or in connection with Defendant's goods or services that dilutes or is likely to dilute the distinctiveness of the trademarks, service marks, names, or logos of Plaintiffs; and

e. passing off, palming off, or assisting in passing off or palming off, Defendant's goods or services as those of Plaintiffs, or otherwise continuing any and all acts of unfair competition as alleged in this Complaint;

2. Defendant be ordered to recall all products bearing the THREE STRIPE Mark, SUPERSTAR Trade Dress or any other confusingly similar mark, which have been shipped by Defendant or under its authority, to any customer including, but not limited to, any wholesaler, distributor, retailer, consignor, or marketer, and also to deliver to each customer a copy of this Court's order as it relates to said injunctive relief against Defendant;

3. Defendant be ordered to deliver up for impoundment and for destruction all footwear, bags, boxes, labels, tags, signs, packages, receptacles, advertising, sample books, promotional material, stationery or other materials in the possession, custody, or under the control of Defendant that are found to adopt, to infringe, or to dilute any of Plaintiffs' trademarks or trade dress or that otherwise

unfairly compete with Plaintiffs and their products and services;

4. Defendant be compelled to account to Plaintiffs for any and all profits derived by Defendant from the sale or distribution of infringing goods as described in this Complaint;

5. Plaintiffs be awarded all damages caused by the acts forming the basis of this Complaint;

6. Based on Defendant's knowing and intentional use of confusingly similar imitations of Plaintiffs' THREE STRIPE Mark and SUPERSTAR Trade Dress, the damages award be trebled and the award of Defendant's profits be enhanced as provided for by 15 U.S.C. § 1117(a);

7. Defendant be required to pay to Plaintiffs the costs of this action and their reasonable attorneys' fees pursuant to 15 U.S.C. § 1117(a), the Agreement, and the state statutes cited in this Complaint;

8. Based on Defendant's willful and deliberate infringement and dilution of Plaintiffs' marks and trade dress, and to deter such conduct in the future, Plaintiffs be awarded punitive damages; and

9. Plaintiffs have such other and further relief as the Court may deem just.

JURY TRIAL DEMAND

Plaintiffs respectfully demand a trial by jury on all claims and issues so triable.

Dated: December 20th, 2001.

PERKINS COIE LLP

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Of Counsel for Defendant Payless ShoeSource, Inc.

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF OREGON

ADIDAS AMERICA, INC. and **ADIDAS-SALOMON AG,** Plaintiffs, v. **PAYLESS SHOE-SOURCE, INC.,** Defendant.	No. CV01-1655 RE (Lead Case) **RELATED CASE TO CV03-1116 RE** **FIRST AMENDED ANSWER, AFFIRMATIVE DEFENSES, AND COUNTERCLAIM TO SECOND AMENDED COMPLAINT** By Defendant Payless ShoeSource, Inc. Pursuant to Fed. R. Civ. P. 12(a)(4) and 13

Defendant, Payless ShoeSource, Inc., ("Payless"), by and through its attorneys, and subject to and without waiver of its contemporaneously filed Motion to Dismiss Counts 1-2, 4, 6, and 8-10 of the Second Amended Complaint, for its answer and counterclaim to the remaining claims of the Second Amended Complaint ("Complaint") of plaintiffs, adidas America, Inc., and adidas-Salomon AG (collectively, "adidas" or "Plaintiffs"), state:

I. ANSWER

1. Payless admits that the Complaint purports to state claims against Payless on various theories, but otherwise denies the averments of paragraph 1 of the Complaint.

2. Payless admits that its footwear is not manufactured by adidas, and that Payless is not connected or affiliated with adidas, but otherwise denies the averments of paragraph 2 of the Complaint.

3. Payless denies the averments of paragraph 3 of the Complaint.

4. Payless admits that this Court has subject matter jurisdiction over adidas' federal claims, but otherwise denies the averments of paragraph 4 of the Complaint.

5. Payless admits that this Court has personal jurisdiction over Payless, but Payless otherwise denies the averments of paragraph 5 of the Complaint.

6. Payless lacks sufficient knowledge or information to form a belief as to the truth of the averments of paragraph 6 of the Complaint, and therefore denies those averments.

7. Payless lacks sufficient knowledge or information to form a belief as to the truth of the averments of paragraph 7 of the Complaint, and therefore denies those averments.

8. Payless admits the averments of paragraph 8 of the Complaint.

9. Payless lacks sufficient knowledge or information to form a belief as to the truth of the averments of paragraph 9 of the Complaint, and therefore denies those averments.

10. Payless lacks sufficient knowledge or information to form a belief as to the truth of the averments of paragraph 10 of the Complaint, and therefore denies those averments.

11. Payless admits that an apparent copy of a Registration Certificate for U.S. Reg. No. 1,815,956 is attached to the Complaint as Exhibit 2, but Payless lacks sufficient knowledge or information to form a belief as to the truth of the remaining averments of paragraph 11 of the Complaint, and therefore denies those averments.

12. Payless admits that an apparent copy of a Registration Certificate for U.S. Reg. No. 1,833,868 is attached to the Complaint as Exhibit 3, but Payless lacks sufficient knowledge or information to form a belief as to the truth of the remaining averments of paragraph 12 of the Complaint, and therefore denies those averments.

13. Payless admits that an apparent copy of a Registration Certificate for U.S. Reg. No. 2,278,589 is attached to the Complaint as Exhibit 4, but Payless lacks sufficient knowledge or information to form a belief as to

the truth of the remaining averments of paragraph 13 of the Complaint, and therefore denies those averments.

14. Payless admits that apparent copies of Registration Certificates for U.S. Reg. Nos. 870,136; 961,353; 2,016,963; and 2,058,619 are attached to the Complaint as Exhibit 5, but Payless lacks sufficient knowledge or information to form a belief as to the truth of the remaining averments of paragraph 14 of the Complaint, and therefore denies those averments.

15. Payless lacks sufficient knowledge or information to form a belief as to the truth of the averments of paragraph 15 of the Complaint, and therefore denies those averments.

16. Payless admits that an apparent copy of a Registration Certificate for U.S. Reg. No. 1,674,229 is attached to the Complaint as Exhibit 6, but Payless otherwise lacks sufficient knowledge or information to form a belief as to the truth of the averments of paragraph 16 of the Complaint, and therefore denies those averments.

17. Payless lacks sufficient knowledge or information to form a belief as to the truth of the averments of paragraph 17 of the Complaint, and therefore denies those averments.

18. Payless denies the averments of paragraph 18 of the Complaint.

19. Payless lacks sufficient knowledge or information to form a belief as to the truth of the averments of paragraph 19 of the Complaint, and therefore denies those averments.

20. Payless lacks sufficient knowledge or information to form a belief as to the truth of the averments of paragraph 20 of the Complaint, and therefore denies those averments.

21. Payless denies the averments of paragraph 21 of the Complaint.

22. Payless lacks sufficient knowledge or information to form a belief as to the truth of the averments of paragraph 22 of the Complaint, and therefore denies those averments.

23. Payless denies the averments of paragraph 23 of the Complaint.

24. Payless lacks sufficient knowledge or information to form a belief as to the truth of the averments of paragraph 24 of the Complaint, and therefore denies those averments.

25. Payless lacks sufficient knowledge or information to form a belief as to the truth of the averments of paragraph 25 of the Complaint, and therefore denies those averments.

26. Payless denies the averments of paragraph 26 of the Complaint.

27. Payless admits that it sold footwear in 1994 bearing three and four parallel stripes, and that adidas filed an action for trademark infringement and unfair competition in the United States District Court for the Eastern District of New York, Civil Action No. 94-CIV-3424, but Payless otherwise denies the averments of paragraph 27 of the Complaint.

28. Payless admits the averments of paragraph 28 of the Complaint.

29. Payless admits the averments of paragraph 29 of the Complaint.

30. Payless denies the averments of paragraph 30 of the Complaint.

31. Payless admits that it is selling footwear similar to that depicted in the illustrations in paragraph 31 of the Complaint, but otherwise denies the averments of paragraph 31 of the Complaint.

32. Payless admits that it is selling footwear similar to that depicted in the illustration in paragraph 32 of the Complaint, but otherwise denies the averments of paragraph 32 of the Complaint.

33. Payless admits that the goods distributed, offered for sale, and sold by Payless are not manufactured by adidas, nor is Payless associated or connected with adidas, but Payless otherwise denies the averments of paragraph 33 of the Complaint.

34. Payless lacks sufficient knowledge or information to form a belief as to the truth of the averments of paragraph 34 of the Complaint, and therefore denies those averments. Payless specifically denies that it is selling any confusingly similar imitations of adidas footwear.

35. Payless admits that both the adidas and the Payless products at issue are footwear, but Payless otherwise denies the averments of paragraph 35 of the Complaint.

36. Payless denies the averments of paragraph 36 of the Complaint.

37. Payless denies the averments of paragraph 37 of the Complaint.

38. Payless denies the averments of paragraph 38 of the Complaint.

39. Payless denies the averments of paragraph 39 of the Complaint.

40. Payless denies the averments of paragraph 40 of the Complaint.

First Claim for Relief

41. In response to paragraph 41 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless repeats and incorporates by reference its responses to the allegations in paragraphs 1 through 40.

42. In response to paragraph 42 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 42 of the Complaint.

43. In response to paragraph 43 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a

response is required, Payless denies the averments of paragraph 43 of the Complaint.

44. In response to paragraph 44 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 44 of the Complaint.

45. In response to paragraph 45 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 45 of the Complaint.

Second Claim for Relief

46. In response to paragraph 46 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless repeats and incorporates by reference its responses to the allegations in paragraphs 1 through 45.

47. In response to paragraph 47 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 47 of the Complaint.

48. In response to paragraph 48 of the Complaint, Payless refers the Court to its contemporaneously filed

Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 48 of the Complaint.

49. In response to paragraph 49 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 49 of the Complaint.

50. In response to paragraph 50 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 50 of the Complaint.

Third Claim for Relief

51. In response to paragraph 51 of the Complaint, Payless repeats and incorporates by reference its responses to the allegations in paragraphs 1 through 50.

52. Payless denies the averments of paragraph 52 of the Complaint.

53. Payless denies the averments of paragraph 53 of the Complaint.

54. Payless denies the averments of paragraph 54 of the Complaint.

55. Payless denies the averments of paragraph 55 of the Complaint.

56. Payless denies the averments of paragraph 56 of the Complaint.

Fourth Claim for Relief

57. In response to paragraph 57 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless repeats and incorporates by reference its responses to the allegations in paragraphs 1 through 56.

58. In response to paragraph 58 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 58 of the Complaint.

59. In response to paragraph 59 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 59 of the Complaint.

60. In response to paragraph 60 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 60 of the Complaint.

61. In response to paragraph 61 of the Complaint, Payless refers the Court to its contemporaneously filed

Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 61 of the Complaint.

Fifth Claim for Relief

62. In response to paragraph 62 of the Complaint, Payless repeats and incorporates by reference its responses to the allegations in paragraphs 1 through 61.

63. Payless denies the averments of paragraph 63 of the Complaint.

64. Payless denies the averments of paragraph 64 of the Complaint.

65. Payless denies the averments of paragraph 65 of the Complaint.

66. Payless denies the averments of paragraph 66 of the Complaint.

Sixth Claim for Relief

67. In response to paragraph 67 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless repeats and incorporates by reference its responses to the allegations in paragraphs 1 through 66.

68. In response to paragraph 68 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph

is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 68 of the Complaint.

69. In response to paragraph 69 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 69 of the Complaint.

70. In response to paragraph 70 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 70 of the Complaint.

Seventh Claim for Relief

71. In response to paragraph 71 of the Complaint, Payless repeats and incorporates by reference its responses to the allegations in paragraphs 1 through 70.

72. Payless denies the averments of paragraph 72 of the Complaint.

73. Payless denies the averments of paragraph 73 of the Complaint.

74. Payless denies the averments of paragraph 74 of the Complaint.

Eighth Claim for Relief

75. In response to paragraph 75 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless repeats and incorporates by reference its responses to the allegations in paragraphs 1 through 74.

76. In response to paragraph 76 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 76 of the Complaint.

77. In response to paragraph 77 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 77 of the Complaint.

78. In response to paragraph 78 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 78 of the Complaint.

79. In response to paragraph 79 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a

response is required, Payless denies the averments of paragraph 79 of the Complaint.

Ninth Claim for Relief

80. In response to paragraph 80 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless repeats and incorporates by reference its responses to the allegations in paragraphs 1 through 79.

81. In response to paragraph 81 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 81 of the Complaint.

82. In response to paragraph 82 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 82 of the Complaint.

Tenth Claim for Relief

83. In response to paragraph 83 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless repeats and incorporates by

reference its responses to the allegations in paragraphs 1 through 82.

84. In response to paragraph 84 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 84 of the Complaint.

85. In response to paragraph 85 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 85 of the Complaint.

86. In response to paragraph 86 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 86 of the Complaint.

87. In response to paragraph 87 of the Complaint, Payless refers the Court to its contemporaneously filed Motion to Dismiss, and thus, no response to this paragraph is required at this time; however, in the event a response is required, Payless denies the averments of paragraph 87 of the Complaint.

Eleventh Claim for Relief

88. In response to paragraph 88 of the Complaint, Payless repeats and incorporates by reference its responses to the allegations in paragraphs 1 through 87.

89. Payless denies the averments of paragraph 89 of the Complaint.

90. Payless denies the averments of paragraph 90 of the Complaint.

91. Payless denies the averments of paragraph 91 of the Complaint.

92. Payless denies the averments of paragraph 92 of the Complaint.

Twelfth Claim for Relief

93. In response to paragraph 93 of the Complaint, Payless repeats and incorporates by reference its responses to the allegations in paragraphs 1 through 92.

94. Payless denies the averments of paragraph 94 of the Complaint.

95. Payless denies the averments of paragraph 95 of the Complaint.

96. Payless denies each and every averment of the Complaint that is not expressly admitted herein.

II. AFFIRMATIVE AND OTHER DEFENSES

FIRST DEFENSE

1. Plaintiffs' Complaint fails to state a claim for which relief can be granted.

SECOND DEFENSE

2. Plaintiffs' claims are barred by the doctrines of waiver, laches, and/or estoppel.

THIRD DEFENSE

3. Plaintiffs' claims are barred by contractual estoppel through the prior Agreement of the parties and by Plaintiffs' failure to perform its contractual obligations under that Agreement.

FOURTH DEFENSE

4. Plaintiffs have acquiesced to Payless's manufacture and sale of the products complained of herein.

FIFTH DEFENSE

5. Apart from the THREE STRIPE DESIGN trademark, Plaintiffs have no valid trade dress in their Superstar or Prajna product configurations in that the alleged configurations lack acquired distinctiveness.

SIXTH DEFENSE

6. Apart from the THREE STRIPE DESIGN trademark, Plaintiffs have no valid trade dress in their Superstar or Prajna product configurations in that the alleged configurations are functional.

SEVENTH DEFENSE

7. Plaintiffs have unclean hands and are thereby disqualified from obtaining the relief they seek.

EIGHTH DEFENSE

8. Plaintiffs are attempting to misuse their trademarks and alleged trade dress to acquire a monopoly in violation of United States antitrust laws.

NINTH DEFENSE

9. There is no likelihood of consumer confusion regarding the source, sponsorship, or affiliation of the Payless footwear at issue.

TENTH DEFENSE

10. Plaintiffs have abandoned any claims that their rights are infringed by the manufacturing, use, or sale of footwear bearing less than three stripes or more than three stripes, and have abandoned any claims that its rights are infringed by use of shell toes or other purported elements of the alleged Superstar trade dress and/or woven stitching pattern or other purported elements of the alleged Prajna trade dress.

ELEVENTH DEFENSE

11. Plaintiffs' claims are barred as a result of their failure to perform all of their obligations under the parties' 1994 Settlement Agreement, thereby relieving Payless from certain obligations set out in that Agreement and entitling Payless to sell the footwear at issue in this action.

WHEREFORE, Payless respectfully requests that this Court dismiss Plaintiffs' Complaint in [sic] each count therein with prejudice at Plaintiffs' cost, award Payless its attorneys' fees and costs, and grant such other relief as the Court deems appropriate under the circumstances.

III. COUNTERCLAIM

Payless, by and through its attorneys, for its Counterclaim alleges and states:

1. Defendant Payless ShoeSource, Inc., is a corporation organized and existing under the laws of the state of Missouri, having its principal place of business in Topeka, Kansas.

2. Plaintiff adidas-Salomon AG is a joint stock company organized and existing under the laws of the Federal Republic of Germany, having its office and principal place of business at Postfach 1120, D-91072 Herzogenaurach, Federal Republic of Germany.

3. Plaintiff adidas America, Inc., is a corporation organized and existing under the laws of the state of Delaware, having its principal place of business at 5055 N. Greeley Avenue, Portland, Oregon 97217. adidas America, Inc., is wholly owned by the German corporation adidas-Salomon AG and its affiliates, and within the United States, adidas America is a licensed distributor of adidas brand merchandise. Plaintiffs adidas-Salomon AG and adidas America, Inc., are collectively referred to herein as "adidas."

4. This is an action for breach of contract and for a declaration of abandonment and cancellation of adidas' three stripe trademark registrations. The amount in controversy herein exceeds $75,000.00, exclusive of interest and costs, and is between citizens of different States and in which citizens or subjects of a foreign state are additional parties. This Court has jurisdiction of this action under 28 U.S.C. §§ 1332 and 1367, and venue is properly with this Court under 28 U.S.C. § 1391(a).

COUNT I

BREACH OF CONTRACT

5. Payless repeats and realleges paragraphs 1-4 of the Counterclaim as if fully set forth herein.

6. In 1994, Payless sold certain sold [sic] athletic shoes, including shoes bearing four stripes, that were the subject of a lawsuit filed by adidas against Payless in the U.S. District Court for the Eastern District of New York, No. 94-civ-3424 (the "New York Action").

7. On or about December 15, 1994, adidas and Payless entered into a Settlement Agreement ("Settlement Agreement") to resolve the New York Action. A copy of the Settlement Agreement is attached hereto and incorporated herein by reference as Exhibit A.

8. The Settlement Agreement defines the adidas Three Stripe Design as the design registered in U.S. Trademark Reg. No. 1,833,868 (a copy of which is which is [sic] attached to the Second Amended Complaint as Exhibit 3).

9. The Settlement Agreement states, in part: "Payless further agrees that it will not, except as otherwise provided herein, order or sell athletic shoes bearing two or four parallel, double-serrated stripes of contrasting color running diagonally from the outsole forward to the lacing area."

10. In addition, the Settlement Agreement states in part: "[Payless] agrees, except as otherwise stated herein, not to order, sell or manufacture athletic shoes bearing three substantially straight parallel stripes on the side of

the shoe running diagonally from the outsole forward to the lacing area."

11. The Settlement Agreement also states, in part: "adidas agrees that the Payless obligations set forth in Paragraphs 1,2 and 3 shall remain in effect so long as adidas diligently and aggressively acts to enforce similar restrictions against other retailers in the United States."

12. The Settlement Agreement further states, in part: "This Agreement constitutes a complete understanding among the parties. No amendments to this Agreement shall be binding unless signed by all of the parties."

13. The Settlement Agreement sets specific non-infringement design standards for adidas' Three Stripe Mark and expressly allows Payless to sell shoes bearing two and four stripes with straight edges. Accordingly, under the Settlement Agreement, adidas agreed, among other things, not to take future legal action against Payless based solely on the use of stripes on Payless footwear that comply with the design standards set out in the Agreement.

14. On January 31, 1995, and pursuant to the Settlement Agreement, the Court dismissed the New York Action with prejudice.

15. On or about November 8, 2001, adidas initiated the above-captioned action against Payless. Subsequently, on or about December 20, 2001, adidas filed an Amended Complaint in this action, and on or about September 18, 2003, adidas filed a Second Amended Complaint.

16. Among other claims, adidas' Amended Complaint and Second Amended Complaint allege breach of the Settlement Agreement (Tenth Claim), trademark infringement of

adidas' "Three Stripe Mark" (First, Second, Eighth, and Ninth Claims), and dilution of adidas' "Three Stripe Mark" (Fourth and Sixth Claims). These claims are based on the use of straight edged stripes on Payless footwear that fully comply with the design standards set out in the parties' Settlement Agreement.

17. adidas' action in filing a lawsuit against Payless asserting various claims, including, without limitation, those referenced in paragraph 15 [sic] above, constitutes a willful, material, and bad faith breach of the parties' 1994 Settlement Agreement under which adidas agreed that Payless had the right to sell shoes bearing two and four stripes with straight edges and that adidas would not take future legal action against Payless based on the use of such stripes on Payless footwear.

18. In the intervening years since the execution of the Settlement Agreement, adidas has failed to "diligently and aggressively" enforce against other retailers in the United States the design restrictions and other obligations required of Payless in paragraphs 1-3 of the Agreement, thereby relieving Payless from those design restrictions and obligations.

19. In filing this lawsuit against Payless, notwithstanding that Payless has been contractually relieved of the obligations of paragraphs 1-3 of the Settlement Agreement as set forth in paragraph 17 [sic] above, adidas has acted in bad faith in breach of the implied covenant of good faith and fair dealing attendant to the prior Settlement Agreement between the parties.

20. Payless has performed all of its obligations in effect under the Settlement Agreement.

21. As a result of adidas' breach of the Settlement Agreement, Payless has suffered injury.

22. Payless is entitled to damages resulting from adidas' breach of the Settlement Agreement, including, without limitation, its reasonable costs and attorneys' fees incurred herein.

COUNT II

DECLARATION OF ABANDONMENT AND CANCELLATION OF PLAINTIFFS' THREE STRIPE TRADEMARK REGISTRATIONS

23. Payless repeats and realleges paragraphs 1-22 of the Counterclaim as if fully set forth herein.

24. Upon information and belief, adidas has knowingly permitted the use of two and four stripe athletic shoes by third parties throughout the period in which adidas has claimed exclusive use of its Three Stripe Mark and its alleged Superstar, Mei, and Prajna trade dresses, all of which prominently feature the Three Stripe Mark.

25. Upon information and belief, throughout the 1990s, adidas permitted the use of two and four stripes on other shoes in settlement of trademark infringement claims such as that between adidas and Payless. Such use of two and four stripes was based upon the agreements of the various parties with adidas that two and four stripe shoes do not create a likelihood of confusion, mistake, or deception as to the source or origin of shoes.

26. Upon information and belief, adidas changed its view on likelihood of confusion in or about the year 2000 and thereafter has alleged that two and four stripe shoes create a likelihood of confusion when such stripes appear

on shoes of third parties, either alone or in combination with other elements claimed by adidas as trade dress.

27. Even though this Court has dismissed all of adidas' claims of trademark infringement, unfair competition, and dilution based solely upon the federal registrations of the Three Stripe Mark, adidas continues to allege that Payless infringes its Superstar, Mei, and Prajna trade dresses. adidas principally relies upon the federal registration of the Three Stripe Mark to establish its claim to source-identifying characteristics for the otherwise non-distinctive and functional elements of the alleged Superstar, Mei, and Prajna trade dresses.

28. By alleging that a likelihood of confusion with its Superstar, Mei, and Prajna trade dresses are, in part, caused by the use by Payless of two and four stripe designs, such likelihood of confusion as to two and four stripe footwear would have been incipient in 1994, when adidas agreed to permit the use of two and four stripes by Payless. By such terms of the 1994 Settlement Agreement, adidas acquiesced to the kind of confusion in the market place which it now complains violates the Federal Lanham Act; and therefore adidas through such acquiescence has allowed the public to be deceived as to the source or origin of two and four stripe shoes.

29. In addition to the 1994 Payless Settlement Agreement, upon information and belief, adidas has entered into other agreements with third parties which currently permit the use of two and four stripes, which adidas now considers to cause a likelihood of confusion to exist in the market place along side adidas' Three Stripe Mark.

30. Upon information and belief, for a period of time long prior to the allegations of trademark and trade dress infringement claimed by adidas in this action, adidas has permitted two, three, and four stripe designs to be used without objection on shoes of third parties, has consciously failed to police the use of such stripe designs in a manner consistent with its current position that those designs create a likelihood of confusion in the market place, and has otherwise knowingly acceded to their use on footwear by numerous third parties.

31. By reason of its own inherently deceptive acts, adidas has abandoned any claim of exclusive right to use the Three Stripe Mark and to prevent third parties, including Payless, from using two, three, or four stripe designs on their shoes.

32. Pursuant to 15 U.S.C. § 1127, through its course of conduct in actively permitting or acquiescing to the use by third parties of two, three, and four stripes, adidas has caused the Three Stripe Mark to lose its significance as a trademark and to become abandoned by operation of law.

33. Pursuant to 15 U.S.C. § 1119, this Court is authorized and empowered to rectify the Principal Register and to cancel those registrations which include the now abandoned Three Stripe Mark, including:

– Reg. No. 1,815,956;

– Reg. No. 1,833,868; and

– Reg. No. 2,278,5891 [sic].

Said registrations should be struck from the Principal Register and canceled, thereby preventing adidas from asserting any claim to the validity or exclusive right to use

the Three Stripe Mark under the Federal Lanham Act, including any claim under 15 U.S.C. § 1125 for trade dress which principally relies upon the abandoned Three Stripe Mark.

34. Upon information and belief, adidas falsely asserted rights to the claimed trademark registrations set forth above at a time when adidas was or should have been fully aware that such marks were abandoned due to its course of conduct in permitting the use of two, three, and four stripes.

35. By reason of adidas' acts set forth herein, Payless has suffered injury.

36. Payless is entitled to damages resulting from its injury due to adidas' false assertion of rights in abandoned trademarks, including, without limitation, its reasonable costs and attorneys' fees incurred herein.

WHEREFORE, Payless prays that this Court enter judgment against Plaintiffs:

(1) For damages which Payless has sustained as a result of Plaintiffs' breach of contract, including, without limitation, Plaintiffs' profits and defendant's reasonable attorneys' fees incurred herein;

(2) For a declaration that the Three Stripe Mark is abandoned and has lost its significance as a trademark used on and in connection with shoes, and that Payless is permitted to use designs featuring two, three, or four stripes without protest from Plaintiffs and for a declaration that Plaintiffs are enjoined from any protest of such use by Payless;

(3) For the Clerk of this Court to notify the Director of Patents and Trademarks pursuant to 15 U.S.C. § 1119 to rectify the Principal Register by order of this Court to remove therefrom and to cancel United States Trademark Registration Nos. 1,815,956; 1,833,868; and 2,278,589;

(4) For an award of attorneys' fees under 15 U.S.C. § 1117 as the prevailing party in an exceptional case; and

(5) For such other and further relief as this Court deems just and proper.

DATED: February 3, 2004

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